THE BOOK WAS DRENCHED

UNIVERSAL
LIBRARY
OU_162414
UNIVERSAL
LIBRARY

OSMANIA UNIVERSITY LIBRARY

Call No. 327.73 / Un58F. Accession No. 33621

Author United States.

Title Foreign -- United States.

This book should be returned on or before the date last marked below.

Foreign Relations
of the
United States
Diplomatic Papers
1935

(In Four Volumes)

Volume III
The Far East

United States
Government Printing Office
Washington : 1953

DEPARTMENT OF STATE PUBLICATION 5068
DIVISION OF PUBLICATIONS
OFFICE OF PUBLIC AFFAIRS

For sale by the
Superintendent of Documents, U.S. Government Printing Office
Washington 25, D.C. - Price $4.50 (Buckram)

CONTENTS

Page

LIST OF PAPERS v

THE FAR EASTERN CRISIS:

Chapter I: January 1–April 5, 1935 1
Chapter II: April 5–May 31, 1935 106
Chapter III: June 1–July 31, 1935 196
Chapter IV: August 1–October 31, 1935 324
Chapter V: November 1–December 31, 1935 393

CHINA:

Raising of the American Legation in China to the status of Embassy and abolition of the Consulate General at Nanking 508
Problem of China's economic reconstruction and the attitude of the United States and other governments respecting financial assistance to China 526
Measures taken by the United States for the protection of American lives and property in China 664
Retention of United States Army Forces in China 700
Denial by the United States of responsibility for alleged killing of a Chinese by American Naval enlisted men in China 702
Attitude of the Department of State on the export to China of arms or munitions, including military aircraft 711
Problem of controlling the traffic in opium and narcotic drugs in China, including Manchuria and Jehol 739
Efforts for the consideration of American claims outstanding against China 753
Representations by the United States against the establishment of monopolies in China 767
Reservation of American rights under the treaties and the Customs Rules of 1868 with respect to enforcement by China of Customs Preventive Regulations 790
Attitude of the American Legation with respect to the position of Americans in the Chinese Maritime Customs Service 795
Reservation of American rights in proposed changes for control of pilotage at Shanghai 797
Interest of the United States in the question of Chinese disinclination to grant foreign requests to establish civil aviation or to attain landing rights in China 800
Re-registration of title deeds to real property of Americans in China . . 802
Attitude of the United States with regard to expropriation of land and registration of American educational institutions with the Chinese authorities 815
Objection by China to editorial comments on Chinese leaders by *Time* magazine 817

JAPAN: Page

Political developments in Japan and efforts to improve relations with the United States 821

Representations on establishment of oil monopolies in Japan and Manchuria 877

Trade relations between the United States and Japan; voluntary restriction of exports to the United States and the Philippine Islands by the Japanese 940

Proposed Japanese automobile legislation violative of the 1911 treaty of commerce and navigation between the United States and Japan . 1048

Proposal of a consular convention between the United States and Japan . 1052

Proposed legislation in the State of Arizona affecting right of Japanese nationals to cultivate agricultural land 1068

Disinclination of Japan to negotiate a convention with the United States regulating fisheries off the coast of Alaska 1072

Observations by the Japanese Government regarding restrictions upon the development and exploitation of natural resources by aliens in the Philippine Islands 1080

Refusal of the United States to accede to demand of Japanese Consul at Chefoo for an official apology following conflict between American and Japanese nationals 1087

Protection of contract rights of the Oriental Consolidated Mining Company, an American firm operating in Korea 1097

Attitude of the United States regarding corporation in "Manchoukuo" organized under American law but without American financial interest 1100

SIAM:

Proposed revision of the treaty of friendship and commerce between the United States and Siam, signed December 16, 1920 1105

INDEX 1115

LIST OF PAPERS

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

THE FAR EASTERN CRISIS

CHAPTER I: JANUARY 1–APRIL 5, 1935

Date and number	Subject	Page
1935		
Jan. 1 (1)	*From the Chargé in China (tel.)* Announcement that postal services are to be resumed between China and "Manchoukuo;" causes of uncertainty in North China's future, despite partial fulfillment of Tangku Truce stipulations.	1
Jan. 4 (2)	*To the Chargé in China (tel.)* Request for radio report when postal services are inaugurated between China and "Manchoukuo."	2
Jan. 7	*From the War Department* Japanese extension of military control in North China, and preparation for an early war with Russia, which is regarded as inevitable.	2
Jan. 8 (3)	*From the Ambassador in Japan (tel.)* Advice of unfounded Japanese press reports in regard to the completion of negotiations for the sale of the Chinese Eastern Railway.	4
Jan. 8	*From the Ambassador in the Soviet Union, Temporarily in Washington* Conversations with Far Eastern leaders indicating in part a belief that the railroad negotiations will succeed, that Japan's war thinking is aimed at the United States, and that the Chinese fear further Japanese encroachment.	4
Jan. 9 (L–561 Dipl.)	*From the Counselor of Legation in China to the Chargé in China* Summary of observations made by a Chinese official in regard to Japan's political program in China.	7
Jan. 10 (12)	*From the Chargé in China (tel.)* Resumption of ordinary mail service between China and "Manchoukuo."	9
Jan. 16 (19)	*From the Chargé in the Soviet Union (tel.)* Japanese Chargé's expectation that the sale of the Chinese Eastern Railway will be consummated within 6 weeks.	9
Jan. 18 (3279)	*From the Chargé in China* Press report of dissatisfaction of Japanese military officers with General Chiang Kai-shek and with Chinese failure to carry out certain terms of the Tangku Truce.	9
Jan. 19 (10)	*From the Ambassador in Japan (tel.)* Confidential information concerning small detachment of Kwantung Army in operation against bandit troops in Jehol.	11
Jan. 19 (30)	*From the Chargé in China (tel.)* Japanese issuance of ultimatum for withdrawal of Chinese forces from the Jehol–Chahar area.	12

THE FAR EASTERN CRISIS

CHAPTER I: JANUARY 1–APRIL 5, 1935—Continued

Date and number	Subject	Page
1935 Jan. 21 (11)	*From the Ambassador in Japan (tel.)* British Ambassador's denial of Japanese press rumors of a revival of the Anglo-Japanese alliance in the near future.	12
Jan. 22 (32)	*From the Chargé in China (tel.)* Advice of withdrawal of Chinese forces in accordance with the wishes of the Japanese military.	13
Jan. 22 (14)	*From the Ambassador in Japan (tel.)* Information that agreement has been reached for sale of Chinese Eastern Railway, subject to confirmation by the governments concerned.	13
Jan. 22	*Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs* Analysis of speech delivered in the Diet by the Japanese Foreign Minister, indicating need for continuing U. S. caution and reserve in relations with Japan.	13
Jan. 24 (34)	*From the Chargé in China (tel.)* Report of Japanese action in the disputed area lying between the Great Wall and the Jehol–Chahar boundary.	15
Jan. 24 (L–578 Dipl.)	*From the Counselor of Legation in China to the Chargé in China* Representations to Chinese leaders by the Japanese Legation, seeking either cooperation or stated resistance, the latter policy automatically leading to some regrettable "incident."	16
Jan. 25 (35)	*From the Chargé in China (tel.)* Proposal by Chiang Kai-shek for appointment of an American Army Air Force officer to the position of aviation adviser to China, to take charge of Hangchow aviation school.	18
Jan. 25 (12)	*From the Counselor of Legation in China (tel.)* Advice of a report as to Chiang Kai-shek's adoption of policy of "cooperating" with Japan, and of acceptance of Japanese financial assistance.	18
Jan. 25 (36)	*From the Chargé in China (tel.)* Further information in regard to Japanese military action within the Great Wall.	19
Jan. 26 (13)	*From the Counselor of Legation in China (tel.)* Continuation of efforts to verify reported Chinese acceptance of Japanese financial assistance, and request for information about any discussions of U. S. financial assistance to China.	20
Jan. 26 (14)	*From the Counselor of Legation in China (tel.)* Unconfirmed reports of proposed visit to Nanking by the Japanese Foreign Minister, and of suggested offensive and defensive alliance between China and Japan.	20
Jan. 26 (25)	*To the Chargé in China (tel.)* Instructions relative to oral representations to Chiang Kai-shek discouraging the appointment of any active U. S. Army officer to the service of China.	21
Jan. 28 (16)	*From the Counselor of Legation in China (tel.)* Conversation with Mme. Chiang Kai-shek in regard to alliance and financial proposals by the Japanese Government.	21
Jan. 28 (40)	*From the Chargé in China (tel.)* Continuing efforts to obtain information in regard to Sino-Japanese negotiations.	22

THE FAR EASTERN CRISIS

CHAPTER I: JANUARY 1–APRIL 5, 1935—Continued

Date and number	Subject	Page
1935		
Jan. 28 (18)	*From the Counselor of Legation in China (tel.)* Interview with Foreign Minister indicating no change in Sino-Japanese relations.	23
Jan. 28 (41)	*From the Chargé in China (tel.)* Request for further instructions in regard to making the services of an American Army officer available to the Chinese Government.	24
Jan. 28 (L–864)	*From the Consul General at Tientsin to the Chargé in China* Impact of Chahar incident on Sino-Japanese relations; indications of Japanese determination to coerce China into "Sino-Japanese cooperation" by forceful measures if diplomatic negotiations fail.	25
Jan. 29 (17)	*From the Ambassador in Japan (tel.)* Oral information from the Foreign Office indicating no change in Sino-Japanese relations.	26
Jan. 29 (28)	*To the Chargé in China (tel.)* Instructions to adhere to U. S. policy outlined in telegram No. 25 of January 26.	27
Jan. 29	*From the Counselor of Embassy in the United Kingdom* Résumé of British views on the Japanese question.	28
Jan. 30 (19)	*From the Counselor of Legation in China (tel.)* Comments by an official of the Japanese Legation on the present state of Sino-Japanese relations.	29
Jan. 30 (51)	*From the Chargé in China (tel.)* Plans to carry out Department's instructions in telegram No. 28 of January 29. (Footnote: Information on execution of plans.)	30
Jan. 30 (9038)	*Report by the Military Attaché in China* Nanking Government's concern over Soviet competition in the economically productive area of Sinkiang Province.	31
Jan. 31 (30)	*To the Chargé in China (tel.)* Commendation of Counselor of Legation for promptness in making reports to the Department, and instructions to continue to telegraph at once any further information, with interpretative comment; remarks on proper approach in seeking information.	32
Jan. 31 (20)	*From the Counselor of Legation in China (tel.)* Information from various individuals relative to talked-of Sino-Japanese alliance, Japanese intention to scrap the Nine Power Treaty, and Chinese work on some scheme of monetary reform.	33
Jan. 31	*From President Roosevelt* Belief that United States should watch developments closely and be prompt in asking for official information both from China and from Japan if and when the situation warrants.	34
Jan. 31	*To the Chairman of the Senate Committee on Foreign Relations* Confidential reply to oral request for views in regard to Senate Resolutions 32 and 33, which propose Committee inquiries into Japanese policy in Manchuria and Japanese fulfillment of obligations in Japanese Mandated Islands.	34

THE FAR EASTERN CRISIS

CHAPTER I: JANUARY 1–APRIL 5, 1935—Continued

Date and number	Subject	Page
1935		
Feb. 1 (54)	*From the Chargé in China (tel.)* Inauguration of parcel post and money order services between China and "Manchoukuo."	36
Feb. 1	*Memorandum by the Chief of the Division of Far Eastern Affairs* Confidential information from the Chinese Minister in regard to a telegram from the Foreign Minister concerning Japanese propaganda, and the advisability of Chinese avoidance of any concession involving a loss of sovereign rights.	36
Feb. 2 (21)	*From the Counselor of Legation in China (tel.)* Finance Minister's report attributing the gravity of the financial situation to the U. S. silver purchase policy, and reference to recent Chinese proposal for U. S. financial aid to offset Japanese world-wide threat. Legation's opinions as to reasons for the present Chinese reticence and contradictory statements.	37
Feb. 2 (22)	*From the Ambassador in Japan (tel.)* Press rumors of proposals for new Sino-Japanese agreements, indicating probability of economic rather than political difficulties.	38
Feb. 2 (57)	*From the Chargé in China (tel.)* Beginning of a 3-day conference between Chinese and Japanese officers for settlement of the Jehol Province boundary dispute.	39
Feb. 3 (60)	*From the Chargé in China (tel.)* Press reports indicating Chiang Kai-shek's favorable attitude toward Hirota's recent propitiating remarks; comments on reports of Japanese consideration of certain points in forming China policy.	39
Feb. 4 (22)	*From the Counselor of Legation in China (tel.)* Report on an American adviser's conversations with important Chinese officials pointing up growth of antiforeignism with respect to Americans and Europeans, and inextricable position in which Chiang Kai-shek now finds himself.	40
Feb. 4 (23)	*From the Ambassador in Japan (tel.)* Comment on analysis of the Japanese situation by the Tokyo correspondent of the *New York Times;* Foreign Office denial that Japan is making demands on China at present.	41
Feb. 5 (686)	*To the Ambassador in Japan* Reply to request for provisional instructions in regard to the acceptance of invitations to functions given by the so-called Emperor of "Manchoukuo," or in his honor.	41
Feb. 6 (64)	*From the Chargé in China (tel.)* Press report of settlement of Sino-Japanese incident on Chahar border; information from Japanese Legation alleging Chinese responsibility for the trouble.	42
Feb. 7 (66)	*From the Chargé in China (tel.)* Information regarding changes which Chiang Kai-shek has decided to effect in North China, indicating a gradual yielding by the National Government to Japanese pressure.	43

THE FAR EASTERN CRISIS

CHAPTER I: JANUARY 1–APRIL 5, 1935—Continued

Date and number	Subject	Page
1935		
Feb. 7	*To President Roosevelt* Transmittal of telegrams from the Tokyo Embassy and the Nanking Legation indicating the bearing of the silver question upon developments in Sino-Japanese relations.	44
Feb. 7 (1162)	*From the Ambassador in Japan* Analysis of the Foreign Minister's speech on foreign relations at the opening session of the Diet; reference to earlier speeches of similar tenor.	45
Feb. 8 (1165)	*From the Ambassador in Japan* Analysis of efforts of Japan and the Soviet Union to adjust themselves to the situation created by the separation of Manchuria from the rest of China, and expectation that Japan will genuinely work for the improvement of Soviet-Japanese relations.	49
Feb. 9 (27)	*From the Counselor of Legation in China (tel.)* Confirmation of informal discussions between Chinese and Japanese officials of schemes to promote friendly relations between the two Governments.	54
Feb. 11 (28)	*From the Counselor of Legation in China (tel.)* Conversation between Suma, First Secretary of the Japanese Legation, and the French Minister in regard to Japan's reiterated insistence upon China's acceptance of the inevitable close association with Japan.	55
Feb. 11	*Memorandum by the Chief of the Division of Far Eastern Affairs* Résumé of conversation with Lord Lytton, chairman of League Commission of Inquiry sent to the Far East in 1932, in regard to submitting a joint British and American recommendation for Japan's consideration in connection with procedure in Far Eastern matters.	56
Feb. 14 (32)	*From the Counselor of Legation in China (tel.)* Interview by Chinese newsmen with the Acting Minister for Foreign Affairs, who indicated China's willingness to accept economic assistance from any nation which offered it on a basis of equality and reciprocity.	57
Feb. 15 (1)	*From the Consul General at Tientsin (tel.)* Information on mission of Japanese Major General Doihara to investigate the economic boycott and other conditions in North and Central China, and to cultivate good feeling.	58
Feb. 18 (73)	*From the Consul General at Shanghai (tel.)* Arrival of Doihara, quoted by the press as emphasizing that all anti-Japanese activities in China must be discontinued before a Sino-Japanese agreement can be reached.	58
Feb. 19	*To the Counselor of Embassy in the United Kingdom* Appreciation for letter of January 29 in regard to British views on the Japanese question.	59
Feb. 21 (84)	*From the Minister in China (tel.)* Foreign Minister's speech before the Central Political Council, February 20, seemingly another cautious move in the regimentation of public opinion toward acceptance of Sino-Japanese "cooperation."	60

THE FAR EASTERN CRISIS

CHAPTER I: JANUARY 1–APRIL 5, 1935—Continued

Date and number	Subject	Page
1935		
Feb. 21 (37)	*From the Counselor of Legation in China (tel.)* Comments on the Foreign Minister's address of February 20. Unconfirmed report of an invitation from Japan to China to send an economic mission to Japan.	62
Feb. 27 (42)	*From the Minister in China (tel.)* Conversation with the Administrative Vice Minister for Foreign Affairs, who stressed the need for increased trade between China and Japan, pointing out the problems involved.	62
Feb. 27 (3382)	*From the Minister in China* Despatch from the Consul General at Mukden, February 16 (text printed), suggesting possible desirability of withdrawing consular representatives from Manchuria if and when Japan relinquishes extraterritorial rights in "Manchoukuo;" request for comments.	63
Mar. 1 (97)	*From the Consul General at Shanghai (tel.)* Japanese Legation's denial of most of a press report (excerpt printed) in regard to Japanese proposals for *rapprochement* with China, but admission of discussions concerning elimination of anti-Japanese propaganda from textbooks used in Chinese schools.	66
Mar. 2 (43)	*From the Ambassador in Japan (tel.)* Conversation with the Foreign Minister, who spoke of concentration of efforts toward improved relations between Japan, China, and the Soviet Union as preliminary to the solution of naval and other problems.	67
Mar. 3	*From the Consul General at Canton (tel.)* Résumé of recent press statements made by Hu Han-min; attitude of local authorities toward Doihara's visit; disquieting reports of military developments.	68
Undated	*From the Chinese Legation* Quotation of the portion of the Foreign Minister's speech of February 20 in which he commented favorably on the Sino-Japanese policy presented on January 23 to the Diet by the Japanese Foreign Minister. Chiang Kai-shek's views on the Sino-Japanese situation as expressed in a recent press interview.	70
Mar. 6 (107)	*From the Consul General at Shanghai (tel.)* Further information from T. V. Soong relative to Japanese proposals for a *rapprochement*, and his opinions regarding a possible international loan to China.	73
Mar. 7 (109)	*From the Minister in China (tel.)* Information, as previously requested by the Department, as to present status of the Shanghai defense scheme.	75
Mar. 9 (111)	*From the Minister in China (tel.)* From Canton, March 7: Information in regard to progress in the diplomatic and military agreements between Chinese and Japanese leaders.	75
Mar. 11 (113)	*From the Minister in China (tel.)* Advice of status of the matter of consular representation on the Shanghai defense committee.	76

THE FAR EASTERN CRISIS

CHAPTER I: JANUARY 1–APRIL 5, 1935—Continued

Date and number	Subject	Page
1935 Mar. 12 (52)	*From the Ambassador in Japan (tel.)* Information from the Soviet Embassy of the initialing of documents relative to the sale of Soviet rights in the Chinese Eastern Railway to "Manchoukuo," with no specific mention in the documents of Soviet recognition of "Manchoukuo."	76
Mar. 16 (119)	*From the Minister in China (tel.)* Broadcast in Japan of Sun Fo's speech commemorating the tenth anniversary of the death of his father, Sun Yat-sen, and recommending a closer alliance between Japan and China in fulfillment of the "Greater Asia" policy.	76
Mar. 16 (108)	*From the Chargé in the Soviet Union (tel.)* Press statement by Litvinov (excerpt printed) regarding Soviet and Japanese demilitarization, interpreted as an effort to placate the Japanese because of anxiety over possible German aggression and to impress the United States and Great Britain with the possibility of a new orientation in the Far East.	77
Mar. 17 (50)	*From the Counselor of Legation in China (tel.)* Foreign Office declaration that the transfer by sale or otherwise of the Chinese Eastern Railway, which lies entirely in China, is illegal.	78
Mar. 18 (121)	*From the Minister in China (tel.)* From Shanghai, March 16: Request for instructions in connection with Japanese nonacceptance of the proposed draft for the Shanghai defense scheme.	78
Mar. 19 (82)	*To the Minister in China (tel.)* Department's desire for more reports of a general nature, portraying the situation as a whole and giving estimates of trends; instructions also to coordinate and supervise the reporting work of consular officers with this end in view. (Instructions to repeat to Embassy in Tokyo.)	79
Mar. 21 (3473)	*From the Minister in China* Memorandum (text printed) giving a summary of conversations with responsible merchants and officials of the Chinese Government relative to the financial crisis in Shanghai and the Sino-Japanese "collaboration" in economic fields, the latter being a change apparently brought about by the Japanese military.	79
Mar. 21 (60)	*From the Consul General at Harbin to the Minister in China* Discussion of probable effects of the abolition of extraterritoriality in "Manchoukuo," and belief that it would be unwise to withdraw American Consular representation from Manchuria.	86
Mar. 22 (60)	*From the Ambassador in Japan (tel.)* Difficulties in assessing the situation in Japan relative to China, arising from failure of the Japanese Government to act as a unit.	88
Mar. 22 (88)	*To the Minister in China (tel.)* Request for information concerning the reason for Japanese objection to proposed draft for the Shanghai defense scheme; suggested possible changes in wording.	89

THE FAR EASTERN CRISIS

CHAPTER I: JANUARY 1–APRIL 5, 1935—Continued

Date and number	Subject	Page
1935 Mar. 23 (126)	*From the Minister in China (tel.)* Opinion that alleged conversations between certain Chinese and Japanese are for the purpose of general and gradual improvement in Sino-Japanese relations, which is presumed to be the so-called Hirota policy and is not approved by the military.	90
Mar. 25 (3455)	*From the Minister in China* Difficulty in securing any reliable and significant information concerning the rumored Sino-Japanese negotiations for a *rapprochement;* continuing divergence of Japanese approach by the military and by the Foreign Office.	91
Mar. 26 (103)	*From the Consul at Geneva (tel.)* Press statement (text printed) by the Secretary General of the League of Nations in regard to Japan's withdrawal from the League.	93
Mar. 27 (105)	*From the Consul at Geneva (tel.)* Statements by the Japanese Consul General and the Chinese Minister concerning Japan's withdrawal from the League and the Secretary General's statement.	93
Mar. 28 (148)	*From the Ambassador in the United Kingdom (tel.)* Conversation with the Permanent Secretary of the Treasury, who believes that the only way to reduce tension in the Far East is by direct negotiations between Japan and China, for which the Western Powers could contribute a suitable forum.	95
Mar. 29 (3478)	*From the Minister in China* Economic aspects of reported Japanese efforts to persuade the Chinese authorities to "cooperate" with Japan.	97
Mar. 30 (3481)	*From the Minister in China* Summary of comments by the General Manager of the Peiping and Tientsin offices of the Rengo News Agency in regard to the reported negotiations between China and Japan.	100
Apr. 1 (152)	*From the Consul General at Shanghai (tel.)* Information as to reasons for the closing of the Mukden branch of the National City Bank, and that of Andersen, Meyer, and Co.	101
Apr. 1 (3486)	*From the Minister in China* Information relative to alleged unfairness in censorship of outgoing telegraphic messages of American newspaper correspondents in Shanghai.	102
Apr. 2 (134)	*From the Chargé in the Soviet Union (tel.)* Litvinov's assertion that Great Britain and the Soviet Union will henceforth collaborate in all spheres of international affairs, including Japan.	103
Apr. 5 (1235)	*From the Ambassador in Japan* Signature on March 23 by Japan, the Soviet Union, and "Manchoukuo" of documents transferring the Soviet interest in the Chinese Eastern Railway to "Manchoukuo," entailing heavy financial and political commitments by the Japanese.	103

THE FAR EASTERN CRISIS

CHAPTER II: APRIL 5–MAY 31, 1935

Date and number	Subject	Page
1935		
Apr. 5 (1236)	*From the Ambassador in Japan* Analysis of Japanese-Soviet relations following liquidation of Soviet interests in Manchuria.	106
Apr. 10	*Memorandum by the Second Secretary of Legation in China* Résumé of analysis of the Sino-Japanese situation by the Soviet First Secretary of Embassy, in conversation on April 8.	111
Apr. 13 (1782)	*From the Ambassador in France* Foreign Minister's confirmation of French intervention for the protection of French private interests in the Chinese Eastern Railway.	112
Apr. 16 (72)	*From the Second Secretary of Legation in China (tel.)* Receipt of information concerning Japanese Minister's unexpected expression of his Government's satisfaction with Chinese suppression of the anti-Japanese boycott.	113
Apr. 19 (1244)	*From the Ambassador in Japan* Interpretation of public mood concerning Japan's withdrawal from the League of Nations.	113
Apr. 20 (1254)	*From the Ambassador in Japan* Account of lavish and deferential treatment accorded "Emperor Kangte" of "Manchoukuo" on his visit to Japan.	117
Apr. 20 (1255)	*From the Ambassador in Japan* Foreign Minister's opinion that the so-called "democratic" influence is steadily growing stronger in Japan.	119
Apr. 22 (1638)	*To the Minister in China* Request for comments on an analysis in the Paris *Temps* of the Central Asian political and economic situation, and for information on an alleged agreement mentioned as concluded in 1932 between the Governor of Sinkiang Province and the Soviet Union.	120
Apr. 22 (1643)	*To the Minister in China* Suggestion that consideration be given to certain political as well as material factors in formulating further recommendations in connection with the possible relinquishment by Japan of its extraterritorial rights in "Manchoukuo;" request also for views of other interested legations.	121
Apr. 23 (540)	*From the Ambassador in the Soviet Union* Conversation with the Chinese Ambassador to the Soviet Union in regard to conditions in Sinkiang, and apparent improvement in Soviet attitude toward China.	121
Apr. 25 (83)	*From the Second Secretary of Legation in China (tel.)* Lull in Japanese-Chinese conversations, with expectation of greater activity before the summer passes.	123
Apr. 26 (159)	*From the Ambassador in the Soviet Union (tel.)* Tass report of a Sinkiang Congress announcement of belief that completely friendly relations exist between the Soviet Union and Sinkiang.	123
Apr. 29 (3539)	*From the Minister in China* Despatch from Tientsin giving impression of ascendency of the Soviet political influence in Sinkiang and increasing diversion of trade into strictly Soviet-Sinkiang channels.	124

THE FAR EASTERN CRISIS

CHAPTER II: APRIL 5–MAY 31, 1935—Continued

Date and number	Subject	Page
1935 Apr. 30 (L–695 Dipl.)	*From the Second Secretary of Legation in China to the Minister in China* Review of statements by various Chinese officials in regard to the present Sino-Japanese situation; detailed observations on the situation.	125
Apr. 30	*From the Minister in China* Conversation with the Japanese Consul General concerning improved trade relations with the Chinese and the possibility of foreign financial assistance.	132
May 1 (177)	*From the Minister in China (tel.)* Information in regard to negotiations concerning the Shanghai defense scheme.	133
May 1	*From the Minister in China* Interpretation of certain factors involved in the future of Japan in Asia, particularly with reference to Japan's policy toward China and Chinese response to that policy.	134
May 2 (179)	*From the Minister in China (tel.)* Report from the Consul General at Shanghai concerning attempt to arrange for the inclusion of equal rights in the Shanghai defense scheme.	144
May 2 (1252 Pol.)	*From the Consul at Geneva* Transmittal of two documents drawn up by the League Secretariat for its own guidance in matters having a relation to Japan's withdrawal from the League.	144
May 3 (214)	*From the Consul General at Shangahi (tel.)* Quotation from an article in a Shanghai-British monthly criticizing U. S. silver policy in its effect on China.	147
May 3 (1279)	*From the Ambassador in Japan* Discussion of (1) an apparent Japanese trend away from war, but no evidence that the military is losing influence; (2) question of whether democratic influences are increasing, and position and influence of Hirota.	148
May 3 (91)	*From the Consul General at Mukden to the Minister in China* Report concerning a series of interviews with leading Japanese and Japanese "Manchoukuo" officials by a recently retired British Vice Consul at Mukden, with particular reference to the subjects of nonrecognition of "Manchoukuo" and the future possibilities of foreign business enterprise in Manchuria.	151
May 4 (95)	*From the Second Secretary of Legation in China (tel.)* Understanding that the Soviet Ambassador, recently returned to China from Moscow, will begin discussions with the Foreign Office in regard to a new commercial and possibly a nonaggression treaty with China.	154
May 4 (1281)	*From the Ambassador in Japan* Developments in connection with a cultural, economic, and political *rapprochement* gradually coming about between Japan and Siam.	155
May 7	*Memorandum by the Minister in China* Conversation with the Soviet Ambassador in regard to the recent rapid development of Eastern Siberia.	158

THE FAR EASTERN CRISIS

CHAPTER II: APRIL 5–MAY 31, 1935—Continued

Date and number	Subject	Page
1935 May 9	*From the Minister in China* Observations on change in attitude of T. V. Soong toward the Japanese, one of various evidences of an increasing belief of Chinese officials that "friendship" with Japan is practically inevitable.	159
May 9	*From the Minister in China* Comment by T. V. Soong and by S. Matsumoto, head of Japanese news agency in China, in regard to recent Sino-Japanese conversations bearing on general improvement of relations.	160
May 10 (1289)	*From the Ambassador in Japan* Apparent lessening of interest of the Japanese press in the reported negotiations toward a Sino-Japanese *rapprochement*, possibly attributable to the prevailing uncertainty with regard to the sincerity of China's friendly gestures.	163
May 11 (192)	*From the Minister in China (tel.)* Arrival of Chiang Kai-shek at Yunnanfu; reported position of several thousand Reds in the mountains north of Wuting.	166
May 14 (191)	*From the Ambassador in the Soviet Union (tel.)* Information from the Chinese Ambassador that upon his return to Moscow he had brought to the Soviet Government Chiang Kai-shek's assurance of armed support in case of war with Japan.	166
May 15	*From the Minister in China* Information from the Soviet Ambassador regarding unsuccessful efforts to negotiate a nonaggression treaty with China, and his belief that failure was due to Japanese advice to China that such an arrangement would be considered an unfriendly act.	167
May 15	*From the Consul at Dairen to the Ambassador in Japan* Press statement (extracts printed) by the chief of staff of the Japanese garrison in North China.	167
May 16 (198)	*From the Ambassador in the Soviet Union (tel.)* Information that the Soviet Union has informed Japan of its readiness to enter negotiations for an extension of fishing convention.	169
May 18	*From the Siamese Minister* Assurance, in connection with question of Japanese influence in Siam, that Siamese policy is to strengthen the bonds of friendship with all treaty powers alike.	169
May 18 (222)	*From the Minister in Siam* Detailed summary of rumors relative to a *rapprochement* between Siam and Japan, with evidences of the trend of Siamese policy, and the influences tending to promote or curb such a *rapprochement*.	170
May 18 (10066)	*From the Consul General at Shanghai* Information of Chinese plans for drastic curtailment of American instruction in the Central Aviation Academy at Hangchow.	177
May 21	*To the Siamese Minister* Acknowledgment of Siamese Minister's communication of May 18.	178

THE FAR EASTERN CRISIS

CHAPTER II: APRIL 5–MAY 31, 1935—Continued

Date and number	Subject	Page
1935		
May 22 (210)	*From the Minister in China (tel.)* From Mukden: Sudden resignation of "Manchoukuo" Premier and installation of new cabinet.	178
May 23 (211)	*From the Minister in China (tel.)* Minor disturbance attributed to Chinese volunteers inside the Wall, and entrance of Japanese troops into the demilitarized zone to suppress the rebels.	178
May 23 (212)	*From the Minister in China (tel.)* Advice that the Japanese believe that high Chinese officials are implicated in the assassination of two pro-Japanese Chinese editors in the Japanese concession at Tientsin, and will lodge a strong protest with Chinese authorities.	179
May 23 (116)	*From the Minister in China (tel.)* Conversation with Administrative Vice Minister for Foreign Affairs concerning the murder of the two editors at Tientsin and the Japanese troop movements in the demilitarized zone.	180
May 24 (117)	*From the Minister in China (tel.)* Attitude of the Japanese Embassy that the disturbance involving Japanese troops and Chinese rebels is a "local matter," but that the murder of the two Chinese editors at Tientsin is a "very serious matter."	181
May 25 (111)	*From the Ambassador in Germany (tel.)* Unconfirmed information of a secret German-Japanese military alliance, with 70 Japanese officers en route to Germany for liaison purposes.	181
May 27 (124)	*From the Minister in China (tel.)* Information from a well-informed source that the assassins of the two Chinese editors were three members of the Peiping *gendarmerie* and that the Japanese have demanded that they be handed over. Belief of Japanese Embassy in possible "necessity" for Japanese occupation of North China.	181
May 27 (1274 Pol.)	*From the Consul at Geneva* Report in regard to continuing Japanese representation on League committees.	182
May 27 (30)	*From the Consul at Tsingtao to the Minister in China* Information concerning China's intention to forfeit redemption of its own note issue for the Tsingtao-Tsinan Railway.	183
May 28 (223)	*From the Minister in China (tel.)* Suppression of bandits in the Tsunhua area and withdrawal of Japanese troops to points along the Wall.	185
May 28 (224)	*From the Minister in China (tel.)* Japanese intention to send a high commissioner to China to meet a special commissioner appointed by China for the specific purpose of negotiating a *rapprochement*. Japanese pressure for guarantee against recurrence of such affairs as the murders in the Japanese Concession at Tientsin.	185
May 29 (215)	*From the Ambassador in the Soviet Union (tel.)* Information from Foreign Commissar Litvinov of Soviet Government's preference for Sinkiang as a buffer state under its economic control rather than under a soviet form of government.	186

THE FAR EASTERN CRISIS

CHAPTER II: APRIL 5–MAY 31, 1935—Continued

Date and number	Subject	Page
1935 May 30 (227)	*From the Minister in China (tel.)* Press statement (text printed) issued by Japanese Military Attaché's office in Peiping in regard to the unsatisfactory conditions in North China; increasing signs of Japanese utilization of the Tientsin murders as a basis for drastic threats.	187
May 30 (228)	*From the Minister in China (tel.)* Japanese *aide-mémoire* to Provincial authorities containing threatening representations in regard to the situation at Tientsin.	188
May 31	*From the Consul at Tientsin (tel.)* Provocative activities of Japanese garrison; departure of numerous Chinese from the Chinese city to the British Concession.	188
May 31 (217)	*From the Ambassador in the Soviet Union (tel.)* Tass statement (text printed) indicating Japanese desire to revise 1928 fishing convention, and Soviet willingness to begin negotiations.	189
May 31 (129)	*From the Minister in China (tel.)* Finance Minister's views on Japanese charges of Chinese responsibility for the assassination of the two editors and for rebel activities in North China. Report that the Japanese military have admitted their intention to Manchurianize a buffer state in North China.	189
May 31 (230)	*From the Minister in China (tel.)* Demonstration of Japanese soldiers at Tientsin, apparently in an effort to force Provincial Government headquarters to move to Paotingfu.	191
May 31 (133)	*From the Minister in China (tel.)* Report of Chinese leaders' compliance with the "advice" (which accompanied Japanese demonstration) that the Provincial Government move to Paotingfu.	191
May 31 (115)	*From the Ambassador in Japan (tel.)* Press reports, substantiated by the War Office, in regard to Japanese military demands leading to an enlarged demilitarized zone.	192
May 31 (1331)	*From the Ambassador in Japan* Attitude of Japanese military indicating displeasure with the Soviet Government despite the striking improvement in Soviet-Japanese relations.	193

CHAPTER III: JUNE 1–JULY 31, 1935

1935 June 1 (233)	*From the Minister in China (tel.)* Hope of temporary relief in Sino-Japanese situation by removal of Hopei Provincial Government to Paoting and by changes in present Government personnel, some long disliked by the Japanese.	196
June 1 (117)	*From the Ambassador in Japan (tel.)* Evidence of widening schism between the Japanese military and civil elements, the military continuing to make demands on the Chinese without foreknowledge of the Foreign Office.	197

THE FAR EASTERN CRISIS

CHAPTER III: JUNE 1–JULY 31, 1935—Continued

Date and number	Subject	Page
1935		
June 1 (235)	*From the Minister in China (tel.)* From Mukden: Belief of local Japanese military official that the Chinese will accept demands for an extension of the demilitarized zone.	198
June 2 (236)	*From the Minister in China (tel.)* Information that Chiang Kai-shek has ordered disbandment of the Third *gendarmerie* with headquarters at Tientsin.	198
June 3 (241)	*From the Minister in China (tel.)* Further details on the situation at Tientsin.	199
June 4 (136)	*From the Minister in China (tel.)* Evidences of Japanese bitterness against Chiang Kai-shek in spite of his conciliatory pronouncements; also of Chinese compliance with the "advice" of the Japanese military.	199
June 4 (242)	*From the Minister in China (tel.)* Information concerning developments in relation to the general North China ambitions of the Japanese.	200
June 5 (139)	*From the Minister in China (tel.)* Advice of Chinese dismissals and appointments in conformance with Japanese desires; plan of Chinese leaders to meet in Hankow June 10 to attempt formulation of a definite future policy in respect to the North China region.	200
June 5 (243)	*From the Minister in China (tel.)* Information concerning political reorganizations and indications of Chinese response to the recent Japanese "warning."	201
June 5 (119)	*From the Ambassador in Japan (tel.)* Lessening of press attention to the North China situation; Japanese Army's insistence upon further political replacements, the withdrawal of Nationalist troops from North China, and the suppression of organized anti-Japanese propaganda.	202
June 5	*From the Consul General at Canton to the Minister in China* Information concerning Japanese Envoy Matsumoto's efforts to secure a definite statement of cooperation from Kwangsi and Kwangtung leaders; account of several incidents indicative of Japanese machinations in South China.	202
June 6	*Memorandum by the Counselor of Legation in China, Temporarily in Washington* Struggle for official positions in China between Chinese educated in Europe or America and those educated in Japan, the latter group now gaining influence through the growth of Japanese domination by the threat of force; process of formulation of Chinese foreign policies.	207
June 6 (140)	*From the Minister in China (tel.)* Evidences of continuing Japanese movements against Chiang Kai-shek; possibility that the demilitarized zone will not be extended if the Chinese are compliant with the wishes of the Japanese military.	213
June 6 (285)	*From the Minister in China (tel.)* Object of Japanese military evidently to eliminate Chiang Kai-shek as a potential menace to Japanese interests.	214

THE FAR EASTERN CRISIS

CHAPTER III: JUNE 1–JULY 31, 1935—Continued

Date and number	Subject	Page
1935 June 6 (244)	*From the Minister in China (tel.)* Request for instructions relative to customs tariff on official consular supplies entering "Manchoukuo;" Legation's view that payment should be authorized without protest, but that Consul General at Mukden might appropriately discuss the matter informally with the Hsinking authorities at next opportunity.	216
June 7 (141)	*From the Minister in China (tel.)* Advice that the Japanese have apparently accomplished their immediate purposes in North China.	217
June 7	*From the Consul General at Tientsin (tel.)* Transfer of Yu Hsueh-chung from chairmanship of Hopei Province to position of Bandit Suppression Commander for the Szechuan, Shansi, and Kansu border.	217
June 7	*From the Secretary of the Navy* Message from the Commander in Chief, Asiatic Fleet (text printed) indicating plan of Japanese military leaders to ask permission from Japanese Emperor to exercise a free hand in North China.	217
June 7 (3606)	*From the Minister in China* Information concerning Japanese pressure for dismissal of the Mayor of Tsinan.	218
June 8 (123)	*From the Ambassador in Japan (tel.)* Information regarding Japanese accusations against Chiang Kai-shek, interpreted as intimidation measures rather than intention to overthrow the Central Government at Nanking.	218
June 8 (249)	*From the Minister in China (tel.)* Substantial strengthening of Tientsin garrison due to retention of Japanese troops beyond expiration of term of duty.	219
June 8 (143)	*From the Minister in China (tel.)* New threats by the Japanese military, angry with the Foreign Office over its conciliatory references to Chiang Kai-shek, and determined to act independently of any civil branch of the Government.	219
June 8 (252)	*From the Minister in China (tel.)* Information in regard to the North China situation, and Japanese insistence upon Chinese recognition of "Manchoukuo."	220
June 10 (257)	*From the Minister in China (tel.)* Report from Dairen on refusal of "Manchoukuo" Customs to grant free entry of official consular supplies to countries not recognizing the State of "Manchoukuo."	221
June 10 (125)	*From the Ambassador in Japan (tel.)* Rumor of a Japanese ultimatum in North China, unconfirmed by Foreign Office and War Office.	221
June 10 (258)	*From the Minister in China (tel.)* Withdrawal of Chinese troops in accordance with Japanese demands, demilitarizing the Peiping–Tientsin area, and Japanese arrangements for exchange of replacement troops between Tangpu and Tientsin.	222

THE FAR EASTERN CRISIS

CHAPTER III: JUNE 1–JULY 31, 1935—Continued

Date and number	Subject	Page
1935		
June 10 (259)	*From the Minister in China (tel.)* Evidence of ultimate aim of Japanese to purge North China of all anti-Japanese officials.	222
June 10 (156)	*To the Minister in China (tel.)* Authorization to instruct Consul General at Mukden to have informal discussion with Hsinking authorities on question of customs tariff on official consular supplies entering "Manchoukuo."	224
June 10 (10115)	*From the Consul General at Shanghai* Details concerning the organization and operation of the Central Aviation School at Hangchow and its importance from the standpoint of American commercial aviation.	224
June 10 (112)	*From the Consul General at Mukden to the Minister in China* Information in regard to the political-economic crisis in "Manchoukuo."	226
June 11 (148)	*From the Minister in China (tel.)* Advice from a Foreign Office official that the Japanese desire a Chinese-financed administration in North China compliant to wishes of the Japanese Army; that the outbursts of the Japanese military against Chiang Kai-shek are due to his rising power and to their realization of his irreconcilably anti-Japanese views.	229
June 11 (128)	*From the Ambassador in Japan (tel.)* Message from the Ministry of War (substance printed) in regard to the precautionary measures taken by the Japanese Army and stating desire of the Tokyo military authorities for a peaceful North China with no political change.	230
June 11 (263)	*From the Minister in China (tel.)* Advice of mandate by National Government directing Chinese to be sincerely friendly to friendly countries; and of Japanese demand for dissolution of the Peiping political affairs committee and military council.	231
June 12 (46)	*To the Second Secretary of Legation in China, at Nanking (tel.)* Request for verification of Associated Press report that the Central Political Council has rejected Japanese demands affecting North China, and has instructed the Minister of War to prepare against threatened Japanese advance upon Peiping and Tientsin.	231
June 12	*From the Chinese Foreign Office to the Chinese Legation* Chinese compliance with certain demands made by Japanese military in respect to North China; critical situation resulting from refusal of other Japanese terms.	232
June 13 (149)	*From the Minister in China (tel.)* Further demands of Japanese, including insistence that Chiang Kai-shek himself return to Nanking to meet with Japanese military officials; conference of Chinese leaders reported to favor formation of Sino-Japanese political partnership to block further Japanese military advance.	233
June 13 (150)	*From the Minister in China (tel.)* Preliminary reply to Department's telegram No. 46 of June 12, indicating the Council's rejection of certain Japanese demands.	234

THE FAR EASTERN CRISIS

CHAPTER III: JUNE 1–JULY 31, 1935—Continued

Date and number	Subject	Page
1935		
June 13 (268)	*From the Minister in China (tel.)* Incident at Kalgan involving reported insulting treatment of four Japanese military by Chinese military.	234
June 13 (151)	*From the Minister in China (tel.)* Information verifying rejection by the Council of Japanese demands mentioned in telegrams Nos. 149 and 150, and certain additional ones.	235
June 13 (152)	*From the Minister in China (tel.)* Resolution by the Central Political Council to sustain position against any further Japanese demands.	236
June 13 (153)	*From the Minister in China (tel.)* Advice of Japanese threat of reorganization of the Chinese National Government in the event of Chinese rejection of demands; factors involved in possibility of Chinese armed resistance.	236
June 13 (270)	*From the Minister in China (tel.)* Chinese position in regard to signing a draft of requirements which the Japanese have presented. Indications that the Japanese military is progressing toward elimination of North China control by the National Government.	237
June 13 (154)	*From the Minister in China (tel.)* Information that the far-reaching character of the Japanese demands was due to Japanese discovery that Chiang Kai-shek had issued orders for anti-Japanese activities.	238
June 13 (271)	*From the Minister in China (tel.)* Advice that pamphlets denouncing Chiang Kai-shek and advocating an independent state have been distributed in Peiping. Japanese refusal to accept official apology for the incident reported in telegram No. 268, June 13.	239
June 14 (155)	*From the Minister in China (tel.)* Substance of oral statement by the Vice Minister for Foreign Affairs in regard to conditions leading to the present grave situation in North China, and his request for information concerning the U. S. attitude toward the developments.	239
June 14 (274)	*From the Minister in China (tel.)* From Mukden, June 13: Japanese press forecast that a political bloc being formed by Hopei, Shantung, Shansi, and Chahar in opposition to the Nanking Government and the Kuomintang, will lead toward development of a new nation hostile to Chiang Kai-shek.	241
June 14 (156)	*From the Minister in China (tel.)* Report of continuing Japanese demand for Chiang Kai-shek's return to Nanking, the requirement now being for him to meet with Ariyoshi, the Japanese Minister in China, rather than with the Japanese military.	241
June 14 (312)	*From the Consul General at Shanghai (tel.)* Press item (text printed) quoting denouncement by the Japanese Military Attaché of the U. S. economic policy as being more harmful to China than Japanese military aggression.	242

THE FAR EASTERN CRISIS

CHAPTER III: JUNE 1–JULY 31, 1935—Continued

Date and number	Subject	Page
1935		
June 14 (275)	*From the Minister in China (tel.)* Continuing uneasiness in Peiping; reports of troop movements, and of Japanese military stabling horses on American mission property.	243
June 14 (159)	*From the Minister in China (tel.)* Expectation of Chiang Kai-shek's arrival in Nanking; China's attitude toward any further capitulation to Japan's demands.	244
June 14 (276)	*From the Minister in China (tel.)* From Mukden: Press reports alleging complicity of Chiang Kai-shek in Chahar's anti-Japanese activities.	244
June 14 (1350)	*From the Ambassador in Japan* Analysis and evaluation of the action of the Japanese military in the North China area.	244
June 15 (129)	*From the Ambassador in Japan (tel.)* Advice that the British Ambassador has received instructions to inquire of the Japanese as to accuracy of their reported demand that the Chinese appoint no officials in North China without Japanese consent, and, if true, to point out that the demand constitutes a violation of the Nine Power Treaty.	248
June 15 (282)	*From the Minister in China (tel.)* Report on minor troop movements. Information that Chinese educators of Peiping are discussing alternatives of moving south or closing the five leading universities.	249
June 15	*Memorandum by the Under Secretary of State* Conversation with the British Ambassador concerning developments in North China, British proposed invocation of the Nine Power Treaty, and question of any similar action by United States.	249
June 15 (238)	*From the Ambassador in the Soviet Union (tel.)* Information from Chinese Ambassador that the Japanese military are in full control with Foreign Minister Hirota's acquiescence; that Chiang Kai-shek intends to continue his campaign against the Communists and believes any opposition to the Japanese by force would be disastrous.	251
June 15 (93)	*To the Ambassador in Japan (tel.)* Conversation with the Japanese Ambassador relative to various reports and rumors concerning North China, and Secretary's emphasis on the need for Japanese continuing clarification of the situation.	252
June 15 (167)	*To the Minister in China (tel.)* Confidential communication by the Chinese Minister of information substantially the same as that contained in telegram No. 155 of June 14.	253
June 15 (130)	*From the Ambassador in Japan (tel.)* Conversation between the British Counselor of Embassy and the Chief of the East Asia Department, indicating Foreign Office unawareness of a military demand preventing appointment of officials in North China without Japanese consent; British Ambassador's desire to invoke the Nine Power Treaty only as a last resort.	253

THE FAR EASTERN CRISIS

CHAPTER III: JUNE 1–JULY 31, 1935—Continued

Date and number	Subject	Page
1935		
June 16 (163)	*From the Second Secretary of Legation in China (tel.)* Chinese official denial of alienation of Kwangtung, Kwangsi, and Hunan Provinces. Advice that thus far Chiang Kai-shek has not come to Nanking.	254
June 16 (165)	*From the Second Secretary of Legation in China (tel.)* Advice that censorship has been lifted on press despatches concerning situation in North China.	254
June 16 (283)	*From the Minister in China (tel.)* Japanese demands and Chinese action in connection with Chahar incident. Observations regarding continuing unsettled conditions.	255
June 17 (287)	*From the Minister in China (tel.)* Announcement by Japanese military in regard to the unsettled state of the Chahar affair. Telegram from Canton concerning present atmosphere there.	256
June 17	*Memorandum by the Under Secretary of State* Conversation with the British Ambassador concerning conflicting reports emanating from China and Japan and the need for utmost caution in making any representations to the Japanese Government.	256
June 17 (288)	*From the Minister in China (tel.)* Opinion as to inadvisability of calling attention of the Japanese Foreign Office to the obvious contraventions of Nine Power Treaty, as the Japanese military have evidently acted without consultation with the Foreign Office.	257
June 17 (3621)	*From the Minister in China* Information concerning the present relationship between Sinkiang and the Soviet Union.	258
June 18 (167)	*From the Second Secretary of Legation in China (tel.)* Assertion by Japanese Embassy official that the Japanese are at present quietly observing whether the Chinese authorities are carrying out the "suggestions" made by the Japanese military.	261
June 18 (132)	*From the Ambassador in Japan (tel.)* Account of a conversation between the British Ambassador and the Foreign Minister. Opinion that no U. S. action is necessary at present.	262
June 18 (168)	*From the Second Secretary of Legation in China (tel.)* Understanding that Executive Yuan has approved appointment of Chin Teh-chun to be Chahar Provincial Chairman replacing Sung Cheh-Yuan, and that he is acceptable to the Japanese.	263
June 18 (292)	*From the Minister in China (tel.)* Menacing attitude of Kwantung Army with respect to Chahar, and evident intention of Japanese to demilitarize that part of Chahar contiguous to Jehol.	263
June 18 (171)	*To the Minister in China (tel.)* Request for information in regard to reported Japanese negotiations with China for the purchase of Pratas Reef, situated between Hong Kong and Northern Luzon.	265

THE FAR EASTERN CRISIS

CHAPTER III: JUNE 1–JULY 31, 1935—Continued

Date and number	Subject	Page
1935 June 19 (169)	*From the Second Secretary of Legation in China (tel.)* Information from authoritative source as to reasons for the dismissal of Sung Cheh-yuan, and possibility of a revolt in Kwangtung and Kwangsi as a move against Chiang Kai-shek.	265
June 19 (297)	*From the Minister in China (tel.)* Indications of unsettled Chahar situation despite appointment of officials satisfactory to the Japanese.	266
June 20 (51)	*To the Second Secretary of Legation in China, at Nanking (tel.)* Instructions to express appreciation to Vice Minister for Foreign Affairs for information on events in North China, and to apprise him of a conversation which the Department had with the Chinese Minister on June 18.	267
June 20 (301)	*From the Minister in China (tel.)* Growing uneasiness concerning the Chahar situation and the future activities of Sung Cheh-yuan's army.	268
June 21 (174)	*From the Second Secretary of Legation in China (tel.)* Informal conversation with Vice Minister for Foreign Affairs confirming Legation's understanding of the situation in North China, as reported in earlier communications.	268
June 21 (175)	*From the Second Secretary of Legation in China (tel.)* Unconfirmed report of Kwangtung air force planes being sent to the Hunan border due to dissatisfaction with actions of the National Government resulting in strategic isolation and adverse economic effect upon Kwangtung and Kwangsi.	269
June 21 (305)	*From the Minister in China (tel.)* Suggested reasons for present lull in North China developments; belief that Japanese military will adhere to their objectives; Japanese military's insistence that the Chahar question and the North China situation are separate matters.	270
June 22 (177)	*From the Second Secretary of Legation in China (tel.)* Inability to verify reports mentioned in Department's No. 171, June 18, or any Japanese suggestion for the transfer to Japan of territory for naval bases or other purposes.	271
June 22 (95)	*To the Ambassador in Japan (tel.)* Receipt of information indicating Soviet Commissar Litvinov's concern over North China developments, and his belief that some action by Great Britain and United States would cause Japanese public opinion to react against the military.	272
June 22 (3643)	*From the Minister in China* Conversation with the Soviet Military Attaché concerning North China, during which he stated that if Russia were forced to fight, she would fight on foreign soil.	272
June 23 (307)	*From the Minister in China (tel.)* Press report from Tientsin of alleged interview at Nanking between the Foreign Minister and Japanese newsmen setting forth the Chinese objectives of harmony and friendship, uniting China's raw materials and Japan's technique as a foundation of Far Eastern economy.	272

THE FAR EASTERN CRISIS

CHAPTER III: JUNE 1–JULY 31, 1935—Continued

Date and number	Subject	Page
1935 June 24 (138)	*From the Ambassador in Japan (tel.)* Apparent routine acceptance of the activity of the military by the Japanese people; belief that British and U. S. interposition would be inadvisable and would solidify sentiment in favor of the army.	273
June 24 (309)	*From the Minister in China (tel.)* Advice of negotiations relative to Chahar situation and of opinion in Kalgan that Sung Cheh-yuan's troops will be moved from the area.	274
June 24 (123)	*From the Consul General at Mukden to the Minister in China* Discussion with Vice Minister for Foreign Affairs in regard to the imposition of duty upon official supplies, and his explanation that the action had been taken by the Finance Department rather than the Foreign Office; advice of receipt of supplies following payment of duty by the forwarding agent.	275
June 26 (315)	*From the Minister in China (tel.)* Two Tientsin appointments by National Government without consultation with the Japanese. Indications of intention of Japanese military to avoid the use of force to attain their further objectives.	276
June 26 (183)	*From the Second Secretary of Legation in China (tel.)* Conversation with Suma of the Japanese Embassy, who indicated complete settlement of Sino-Japanese issues in Hopei, and Chinese agreement in principle to Japanese points in regard to the Chahar question.	277
June 26 (141)	*From the Ambassador in Japan (tel.)* Advice of the successful conclusion of negotiations for settlement of the Chahar incident. Press report of a disturbance involving an undisciplined detachment of Sung's army and "Manchoukuo" frontier guards.	277
June 26	*To the Chairman of the Senate Committee on Foreign Relations* Views concerning Senate Resolution 154 authorizing a Committee examination of the Japanese policy in Manchuria and in China proper, with opinion that a Senate investigation at this time would not be in the public interest.	278
June 27 (321)	*From the Minister in China (tel.)* Japanese military's announcement of settlement of Chahar incident by Chinese accession to Japanese demands.	280
June 27 (1375)	*From the Ambassador in Japan* Advice of revival of Japanese interest in question of Soviet–"Manchoukuo" frontier following inspection tour of the War Minister. Discussion of reports pertaining to possible negotiation of a Japanese-Soviet nonaggression pact and appointment of a joint border commission.	281
June 28 (185)	*From the Second Secretary of Legation in China (tel.)* Opinion of Ministers of Industries and Navy that Pratas Reef is of no real value and could not be used for naval or aviation station.	283
June 29 (143)	*From the Ambassador in Japan (tel.)* Advice that the Prime Minister is believed to be in a strong position in his determination to control situation in China without major military operations and by settlement of differences through peaceful measures.	283

THE FAR EASTERN CRISIS

CHAPTER III: JUNE 1–JULY 31, 1935—Continued

Date and number	Subject	Page
1935		
June 29 (324)	*From the Minister in China (tel.)* From Harbin, June 28 and June 29: Information regarding attack on a Kwantung Army surveying party by Outer Mongolian troops; report that a possible break-up of the Manchuli conference has apparently been averted.	284
June 29 (187)	*From the Second Secretary of Legation in China (tel.)* Final settlement of all questions relating to Chahar situation.	284
June 29 (325)	*From the Minister in China (tel.)* Information concerning precautionary measures and the suppression of trouble at Fengtai instigated by plain-clothes men, apparently intending to organize an anti-Chiang Kai-shek government, after a mistaken anticipation of Japanese support; establishment of martial law in Peiping every night, 9 p. m. to 6 a. m.	285
July 1	*Memorandum by the Under Secretary of State* Remarks to the British Ambassador recalling the U. S. position with respect to Japanese intentions in North China.	286
July 1 (189)	*From the Second Secretary of Legation in China (tel.)* Advice of Chinese impression that the United States has shown a cold attitude toward the North China situation. Summary of certain trends including the withdrawal of Japanese demands relative to official appointments in Hopei.	287
July 2 (330)	*From the Minister in China (tel.)* Information regarding daily arrival of several hundred Japanese and Koreans at Peiping prior to the Fengtai trouble, and continuation of martial law to enable authorities to complete a survey of the situation.	288
July 2 (261)	*From the Ambassador in the Soviet Union (tel.)* Soviet apprehension that the succession of incidents on the Soviet-Manchurian frontier presages a Japanese demand for demilitarization of the border zone and the sale of the northern half of Sakhalin Island.	288
July 3 (3662)	*From the Minister in China* Soviet confirmation of existence of a 1931 Sinkiang-Soviet treaty, denial of any intention to expand into Sinkiang, and indication of willingness to support any Chinese-designated leader in Sinkiang who would resist Japanese penetration.	289
July 3 (3667)	*From the Minister in China* Despatch from the Consul General at Shanghai (text printed) regarding the proposed revision of the Shanghai defense scheme, and general opposition to an amendment suggested by Commander of the Japanese Naval Landing Party at Shanghai.	289
July 4 (263)	*From the Ambassador in the Soviet Union (tel.)* French Communist leader's confirmation of report of a scheduled Congress of the Third International in Moscow, and verification of Japanese demands for the Soviet Union to sell the northern half of Sakhalin.	292
July 4 (266)	*From the Ambassador in the Soviet Union (tel.)* Discussion with Litvinov, who denied that Japan had demanded sale of northern Sakhalin and the demilitarization of the Siberian frontier, said Japan desired a boundary commission, and gave his opinion that Japan desired peace.	292

THE FAR EASTERN CRISIS

CHAPTER III: JUNE 1–JULY 31, 1935—Continued

Date and number	Subject	Page
1935		
July 5 (268)	*From the Ambassador in the Soviet Union (tel.)* Japanese Embassy's confirmation of Litvinov's comments on Sakhalin and on a boundary commission, and advice of "Manchoukuo's" determination not to relinquish its claim to the large island at the juncture of the Amur and Ussuri Rivers, which has potential military importance.	293
July 5 (192)	*From the Second Secretary of Legation in China (tel.)* Japanese objections to an article in the Chinese publication *New Life*, later reprinted by another publication, and dissatisfaction with delay in punishment of the author and publisher.	293
July 5 (56)	*To the Second Secretary of Legation in China, at Nanking (tel.)* Digest of a statement made to the Chinese Minister refuting implications of a U. S. "cold attitude" toward difficulties recently experienced by China.	295
July 7 (196)	*From the Second Secretary of Legation in China (tel.)* Advice that there are no indications of imminent sweeping government changes unless the Foreign Minister's physical condition worsens; that there is an increasing possibility of eventual Chinese resistance due to Chiang Kai-shek's idea that the penalties of resistance can be no greater than those of acquiescence.	296
July 9 (199)	*From the Second Secretary of Legation in China (tel.)* Confidential information concerning frequent unauthorized visits to Pratas Reef by Japanese fishermen and seaweed hunters in motor launches.	297
July 9 (200)	*From the Second Secretary of Legation in China (tel.)* Kuomintang warning in regard to violating the Government mandate prohibiting discriminatory or provocative writing or comment such as recently appeared in *New Life*.	298
July 9 (146)	*From the Ambassador in Japan (tel.)* Résumé of recent conversations with the Soviet Ambassador and with the Counselor in regard to Soviet-Japanese relations, indicating Soviet unwillingness to sell North Sakhalin or to agree to a demilitarized zone along the Soviet-"Manchoukuo" border.	299
July 9 (202)	*From the Second Secretary of Legation in China (tel.)* Decision by a group of Provincial chairmen and Nanking Government officials to recommend acceptance of a Japanese proposal including a mutual defense provision; unfavorable attitude of the Chinese Foreign Minister.	300
July 9 (693)	*From the Ambassador in the Soviet Union* Remarks of the Counselor of the Chinese Embassy indicating that the Sinkiang-Soviet treaty of 1931 is of a temporary nature and will become ineffective upon the conclusion of the general Chinese-Soviet commercial treaty, now being negotiated.	300
July 10 (348)	*From the Minister in China (tel.)* Information from the Soviet Embassy concerning the detention and release by Outer Mongolian authorities of two men in the service of the Japanese Army.	301

THE FAR EASTERN CRISIS

CHAPTER III: JUNE 1–JULY 31, 1935—Continued

Date and number	Subject	Page
1935		
July 10 (3679)	*From the Minister in China* Observations in regard to the grave situation in China, and to signs pointing to ultimate subjugation by the Japanese military.	303
July 12 (3675)	*From the Minister in China* Review of developments in China during the first six months of 1935.	306
July 14 (288)	*From the Ambassador in the Soviet Union (tel.)* Information from the Japanese Counselor of Embassy in regard to status of fisheries negotiations with the Soviet Foreign Office, and in regard to a boundary commission.	310
July 15 (3690)	*From the Minister in China* Indications of a steadily increasing Japanese interest and influence in Shanghai.	310
July 16 (151)	*From the Ambassador in Japan (tel.)* Conversation with Foreign Minister in regard to the gradual changes being effected in the Government.	314
July 17 (404)	*From the Consul General at Shanghai (tel.)* Chiang Kai-shek's program leading to eventual resistance to Japan, including emphasis on necessity for exterminating the Reds first.	314
July 18 (250)	*From the Minister in Siam* Résumé of circumstances leading to publication in *New York Times* of Siamese denial of Japanese allegations of a close alliance between Japan and Siam; report on interviews with the Siamese Premier indicating Siam's independent policy.	315
July 19 (368)	*From the Minister in China (tel.)* Increasing possibility of formation of a North China regime for the five Northern provinces which will be nominally under the control of the National Government and at the same time "cooperative" with the Japanese.	317
July 23 (373)	*From the Minister in China (tel.)* Japanese military's continuing dissatisfaction with Chinese activities.	318
July 25 (216)	*From the Second Secretary of Legation in China (tel.)* Report of Chiang Kai-shek's yielding to Japanese pressure and to pleas of Government leaders to come to Nanking to declare himself unequivocally in respect to Sino-Japanese issues, and observations thereon.	320
July 25 (376)	*From the Minister in China (tel.)* Japanese threat of "positive measures" to be taken by the Kwantung Army to insure Outer Mongolian Government's compliance with representations of the "Manchoukuo" government.	321
July 26 (308)	*From the Ambassador in the Soviet Union (tel.)* Conversation with Yen, the Chinese Ambassador, who brought up the urgent desire of his Government for U. S. appointment of an American financial expert to China. Confidential information from Yen concerning four new Japanese demands, and Yen's message to Chiang Kai-shek that it would be better to fight than to make further concessions.	322

THE FAR EASTERN CRISIS

CHAPTER III: JUNE 1–JULY 31, 1935—Continued

Date and number	Subject	Page
1935 July 29 (170)	*To the Ambassador in the Soviet Union (tel.)* Instructions to inform the Chinese Ambassador that the United States is considering the question of appointment of a financial expert in China, but no decision has yet been reached.	323
July 31 (161)	*From the Chargé in Japan (tel.)* No verification of reported new Japanese demands.	323

CHAPTER IV: AUGUST 1–OCTOBER 31, 1935

1935 Aug. 1 (390)	*From the Minister in China (tel.)* Information from Consul General at Mukden regarding Japanese denial of extraterritorial rights to a British national in "Manchoukuo."	324
Aug. 2 (221)	*From the Second Secretary of Legation in China (tel.)* Information similar to that contained in telegram No. 308 of July 26 from the Ambassador in the Soviet Union in regard to Japanese demands and need for decision by Chiang Kai-shek.	325
Aug. 2 (223)	*From the Second Secretary of Legation in China (tel.)* Conversation with the Acting Foreign Minister, who expressed personal opinion that China must resist by force any further Japanese demands for territory, or for the relinquishment of sovereign rights.	325
Aug. 2 (3728)	*From the Minister in China* Opinion regarding inadvisability of proceeding further toward obtaining revision of part II, paragraph 4, of the Shanghai Defense Scheme, proposed by the Department in 1934.	326
Aug. 8	*Memorandum by the Chief of the Division of Far Eastern Affairs* Indications of a possible Anglo-Japanese conference to be held in Tokyo to consider naval questions and Far Eastern relations; need for U. S. consideration of course to pursue with reference to cooperation with Great Britain and aid to China.	328
Aug. 8 (1424)	*From the Chargé in Japan* Appointment by the Cabinet of American-educated Matsuoka as president of the South Manchuria Railway, a move to rectify the prevailing differences of opinion between the Kwantung Army and the railway management.	330
Aug. 10 (411)	*From the Minister in China (tel.)* Outer Mongolian reply to a "Manchoukuo"–Kwantung Army note proposing exchange of resident representatives whose authority would be limited to settlement of border disputes.	334
Aug. 13 (415)	*From the Minister in China (tel.)* Report of Japanese offers to Prince Teh as an inducement to declare Inner Mongolian independence from China.	334
Aug. 20 (247)	*From the Second Secretary of Legation in China (tel.)* Alleged reconsideration by Wang of his expressed determination to retire from the Government; China's disappointment over the failure of the United States and Great Britain to assist her in solving her problems with Japan.	335

THE FAR EASTERN CRISIS

CHAPTER IV: AUGUST 1–OCTOBER 31, 1935—Continued

Date and number	Subject	Page
1935		
Aug. 21 (249)	*From the Second Secretary of Legation in China (tel.)* Arrival of Wang Ching-wei for meeting with Chiang Kai-shek; obscurity of situation in southwest China.	337
Aug. 22 (252)	*From the Second Secretary of Legation in China (tel.)* Withdrawal of Wang's resignation, indicating vindication of his foreign and domestic policies by Chiang Kai-shek; Chiang's plan to return to Chengtu immediately, which is taken as indication that the Government crisis has passed.	338
Aug. 24	*Memorandum by Mr. Raymond C. Mackay, of the Division of Far Eastern Affairs, of a Conversation With Mr. L. R. Holbrook* Information in regard to Mr. Holbrook's new affiliation with the Chinese Government as a technical adviser to the Central Trust, recently created purchasing department of the Central Government and for the present dealing only with aviation.	339
Aug. 26 (437)	*From the Minister in China (tel.)* Inclination of Consul General at Harbin to accept, in an unofficial capacity, an invitation to a "Manchoukuo" naval review; informal inquiry from British Embassy concerning U. S. intentions.	340
Aug. 26 (389)	*From the Ambassador in the Soviet Union (tel.)* Advice from Chinese Ambassador that China felt compelled to accede to Japanese demands for "full economic cooperation."	340
Aug. 27 (263)	*To the Minister in China (tel.)* Instructions for the Legation and the Consulate General at Harbin to work out with the British a decision in regard to attendance at the "Manchoukuo" naval review.	340
Aug. 28 (442)	*From the Minister in China (tel.)* Clarification of some phases of the North China situation, and information in regard to results of recent conferences under Chiang Kai-shek's direction.	341
Aug. 30 (449)	*From the Minister in China (tel.)* Exchange of telegrams with the Consul General at Harbin (texts printed) in regard to the "Manchoukuo" naval review and Consul General's intention to attend informally.	343
Aug. 30 (447)	*From the Minister in China (tel.)* Advice of abolition of the Peiping Political Affairs Readjustment Committee, and of a move toward organization of new Hopei Economic Association. Press reports of Japanese demands for settlement for the Peiping–Mukden Railway holdup of August 15.	343
Sept. 3 (407)	*From the Ambassador in the Soviet Union (tel.)* Representations by the Japanese Ambassador to a Soviet official alleging malicious attacks by the recent Comintern Congress, in violation of the comity of nations, and Soviet position in the matter. Japanese delay in expediting settlement of fisheries dispute with the Soviet Union.	345
Sept. 4 (1744)	*To the Minister in China* Commendation for recent information submitted indicating the increasing Japanese interest in Shanghai, and instructions to continue sending analyses of developments and reporting the attitude of the British Embassy thereon.	346

THE FAR EASTERN CRISIS

CHAPTER IV: AUGUST 1–OCTOBER 31, 1935—Continued

Date and number	Subject	Page
1935		
Sept. 5 (457)	*From the Minister in China (tel.)* Unfavorable disposition of Japanese military toward the proposed Hopei Economic Association; other developments in North China, including advice of Chinese reply in respect to Peiping–Mukden train robbery.	347
Sept. 6 (463)	*From the Minister in China (tel.)* Japanese military's acceptance of Sung Cheh-yuan, who is apparently becoming the dominant Chinese figure in Northern Hopei and Chahar.	348
Sept. 10	*Memorandum by the Chief of the Division of Far Eastern Affairs of a Conversation With the Second Secretary of the French Embassy* Discussion of a French *aide-mémoire* in regard to the question of abolition of extraterritoriality in Manchuria.	349
Sept. 10 (520)	*From the Consul General at Shanghai (tel.)* Paraphrase of interview given to *New York Times* correspondent by Japanese Military Attaché concerning necessity for early improvement of the entire political and military situation in North China.	350
Sept. 25 (10)	*From the Counselor of Embassy in China (tel.)* Press statement by Major General Tada, Tientsin garrison commander, characterizing Chiang Kai-shek, his capitalistic group and the National Government personnel as the common enemy of the Chinese people, and declaring the eradication of this evil as Japan's mission.	351
Sept. 25 (9)	*From the Ambassador in China* Résumé of conversation with the Minister of War, who referred particularly to differences of opinion and lack of unity of action among various Japanese military units and individuals in China, as well as in the Government at Tokyo.	352
Sept. 26 (15)	*From the Ambassador in China (tel.)* Conversation with an emissary from the Finance Minister, who inquired as to the probable U. S. attitude in the event of decisions by China which might conceivably result in a Sino-Japanese alliance similar to the "Manchoukuo" set-up.	353
Sept. 26 (12)	*From the Counselor of Embassy in China (tel.)* Understanding that Japanese newspapers at Tientsin have been reprimanded for publishing General Tada's statement, as being unrepresentative of the policy of the Army or of the Government.	355
Sept. 26	*Memorandum by the Ambassador in China* Conversation with Sun Fo, President of the Legislative Yuan, concerning Japanese plans for establishing a separatist government in the North, and Nanking's efforts to thwart the attempt.	355
Oct. 2 (20)	*From the Counselor of Embassy in China (tel.)* Evidence of agreement among the Japanese civil and military authorities on Japan's China policy to a greater degree than heretofore, and indications of forthcoming important developments.	356

THE FAR EASTERN CRISIS

CHAPTER IV: AUGUST 1–OCTOBER 31, 1935—Continued

Date and number	Subject	Page
1935 Oct. 3 (133)	*From the Consul General at Harbin to the Ambassador in China* Newspaper reports regarding relations between Manchuria and Outer Mongolia, and the vital interest of both Japan and Soviet Russia in extending their respective power and influence in Outer Mongolia; press statement from Tokyo setting forth the principles of Japan's new China policy.	357
Oct. 3	*Memorandum by the Ambassador in China of a Conversation With the Japanese Ambassador in China* Discussion of disturbed situation in North China, aggravated by General Tada's statement.	360
Oct. 3	*Memorandum by the Ambassador in China of a Conversation With the Japanese Ambassador in China* Japanese Ambassador's opinion that China's recognition of "Manchoukuo" would help settle many of the border questions; his denial of Japanese interest in a separatist government in North China.	360
Oct. 7 (579)	*From the Consul General at Shanghai (tel.)* Departure of Chinese economic inquiry group for Japan to investigate economic and trade development in an effort toward a real Sino-Japanese economic *rapprochement.*	361
Oct. 8 (25)	*From the Ambassador in China* Information in regard to the rapid extension of Soviet influence in Sinkiang.	361
Oct. 12 (26)	*From the Consul General at Sydney* Analysis of Australian Government's view of its present-day relations with Japan, its basic policy being to avoid giving Japan any excuse to adopt an anti-Australian policy, either political or commercial.	363
Oct. 13 (454)	*From the Chargé in the Soviet Union (tel.)* Soviet protest to Tokyo in regard to skirmishes instigated by Japanese Manchurian divisions which crossed the Soviet frontier and fired on Soviet border guards.	365
Oct. 17 (71)	*From the Counselor of Embassy in China (tel.)* Newspaper reports of important decisions at a Dairen conference concerning Japan's new China policy; inference that the Japanese plan will depend upon Sino-Japanese economic cooperation for the extension of Japan's influence in North China.	365
Oct. 18 (74)	*From the Counselor of Embassy in China (tel.)* From Canton, October 16: Confidential information concerning strong possibility of a separatist move by the Southwest.	367
Oct. 19 (35)	*From the Counselor of Embassy in China (tel.)* Evaluation of the political situation and the main problems being dealt with by Chiang Kai-shek.	367
Oct. 19 (78)	*From the Counselor of Embassy in China (tel.)* Objections of Consul General at Harbin to "head tax on individuals", since effort may be made to apply it to extraterritoriality nationals, and his suggestion of an arrangement whereby Americans would pay the tax as a "voluntary contribution." (Footnote: Department's approval of suggestion.)	368

THE FAR EASTERN CRISIS

CHAPTER IV: AUGUST 1–OCTOBER 31, 1935—Continued

Date and number	Subject	Page
1935 Oct. 21 (79)	*From the Counselor of Embassy in China (tel.)* From Harbin: Plan of "Manchoukuo" to dispatch an expedition to establish by force a "Manchoukuo" diplomatic representative at Urga in the event of continued refusal by Outer Mongolia to accept such an appointee.	369
Oct. 21	*Memorandum by the Second Secretary of Embassy in China* Observations in regard to decreased prestige of the Japanese Army and efforts for control by various military cliques. Opinions of certain informants that the policy of the League of Nations and of Secretary of State Stimson with regard to the Manchurian situation had in no way restrained the Japanese military.	370
Oct. 22 (80)	*From the Counselor of Embassy in China (tel.)* Attitudes of Soviet Union and Japan regarding repeated frontier incidents involving the Japanese–"Manchoukuo" and Soviet border patrols.	373
Oct. 22 (249)	*From the Consul General at Harbin* German delay in recognition of "Manchoukuo" until China's recognition is accorded; "Manchoukuo's" request for visit of German economic mission despite nonrecognition.	374
Oct. 23 (8936)	*From the Consul General at Shanghai to the Ambassador in China* Protests by Japanese Consul General, with request for apology, concerning articles published in the *China Weekly Review*, of which Mr. John B. Powell is American editor and publisher.	375
Oct. 24	*From the Ambassador in China* Conversations with the U. S. Secretary of War, on a visit to China, and the Chinese Minister of Finance, during which the latter expressed belief that Japan plans to move along from its advance in North China to an eventual domination of the world.	375
Oct. 24	*Memorandum by the Ambassador in China of a Conversation With the British Ambassador in China* Discussion with reference to Japanese plans in China, with emphasis on economic relations, and Japanese disregard of the Nine Power Treaty and the four-power understanding.	376
Oct. 25 (37)	*From the Counselor of Embassy in China (tel.)* Circulation of Reuters news release (text printed) purporting to give the latest version of specific Japanese demands on China.	378
Oct. 25 (623)	*From the Consul General at Shanghai (tel.)* From the Ambassador: Refutation of recent press reports of new Japanese demands; recent agreement by Japanese Army, Navy, and Foreign Ministries upon a unified China policy advocating an autonomous North China regime not detrimental to "Manchoukuo" interests.	379
Oct. 25 (459)	*From the Ambassador in the Soviet Union (tel.)* Conversation with the Vice Commissar in charge of Far Eastern relations, who believes that a Sino-Japanese conflict will result from Japanese demands which Chiang will be unable to accept; views of the Chinese Ambassador, who considers the situation less critical.	380

THE FAR EASTERN CRISIS

CHAPTER IV: AUGUST 1–OCTOBER 31, 1935—Continued

Date and number	Subject	Page
1935 Oct. 25 (38)	*From the Counselor of Embassy in China (tel.)* Criticism by a Chinese Foreign Office official of Japanese Army's practice of presenting demands to individual high Chinese officials instead of having political matters of mutual interest handled exclusively by the Foreign Offices of the two Governments.	381
Oct. 25	*From the Consul General at Tientsin (tel.)* Chinese allegations in regard to uprisings of farmers in certain areas and Japanese military protests.	382
Oct. 26 (982)	*From the Ambassador in the Soviet Union* Refutation of rumor from Tokyo concerning the establishment of a soviet government in Sinkiang.	383
Oct. 27 (463)	*From the Ambassador in the Soviet Union (tel.)* Confidential information from the Chinese Ambassador of urgent pressure by Japan on China for support in an attack on the Soviet Union.	383
Oct. 28 (98)	*From the Counselor of Embassy in China (tel.)* Peasant disorders in the district of Hsiangho on the border of the demilitarized zone.	384
Oct. 28 (167)	*From the Consul General at Mukden to the Ambassador in China* Observations concerning Japan's fundamental continental policy as expressed in an article in *Manmo Hyoron*, a Japanese language weekly.	385
Oct. 29 (39)	*From the Counselor of Embassy in China (tel.)* Advice of continuation of Chinese conciliation policy toward Japan in reference to all questions exclusive of Manchuria and not involving cession of territory.	389
Oct. 30 (105)	*From the Counselor of Embassy in China (tel.)* Japanese warning to Chinese authorities in the Peiping–Tientsin area concerning nonfulfillment of promises to eliminate all anti-Japanese and anti-"Manchoukuo" organizations.	390
Oct. 30 (615)	*From the Consul General at Shanghai (tel.)* Return of Chinese economic inquiry group and probability of a Sino-Japanese trade association similar to the Chinese-American Trade Council.	390
Oct. 30 (40)	*From the Counselor of Embassy in China (tel.)* Reports of continuing Japanese pressure in a "three-point program" to secure genuine Chinese effort toward improving relations, toward cooperation in the economic development of North China, and in opposition to the Communists.	391
Oct. 31 (108)	*From the Counselor of Embassy in China (tel.)* Information regarding the new concerted action policy being practiced by Japanese military and civil officials in North China, with analysis of trends in Chinese policy formulation.	392

CHAPTER V: NOVEMBER 1–DECEMBER 31, 1935

1935 Nov. 1 (43)	*From the Second Secretary of Embassy in China (tel.)* Information from a Chinese official concerning the formulation of a united Japanese program for China.	393

THE FAR EASTERN CRISIS

CHAPTER V: NOVEMBER 1–DECEMBER 31, 1935—Continued

Date and number	Subject	Page
1935		
Nov. 1 (45)	*From the Second Secretary of Embassy in China (tel.)* Advice of an attempt to assassinate Chiang Kai-shek and other Chinese leaders at the Central Party Headquarters.	394
Nov. 1 (15)	*To the Second Secretary of Embassy in China, at Nanking (tel.)* Instructions to convey to the Acting Minister for Foreign Affairs a message of sympathy (text printed) relative to the attempts upon the lives of certain Chinese Government officials.	395
Nov. 2 (113)	*From the Counselor of Embassy in China (tel.)* Report of the arrest of several suspects, former Kuomintang members, in accordance with Japanese demand that action be taken against secret anti-Japanese organization; trend toward Tientsin's becoming "another Mukden."	396
Nov. 2 (472)	*From the Ambassador in the Soviet Union (tel.)* Litvinov's opinion that the Japanese intend to make every effort to dominate North and Central China, and that China must fight soon or lose her independence.	397
Nov. [3] (114)	*From the Counselor of Embassy in China (tel.)* Reported reply to Japanese *démarche*, referred to in telegram No. 105 of October 30, assuring satisfactory adjustment of the complaint.	397
Nov. 4 (116)	*From the Counselor of Embassy in China (tel.)* Further indications of Chinese conformance with the recent Japanese *démarche*.	398
Nov. 5 (55)	*From the Second Secretary of Embassy in China (tel.)* Information from Suma of the Japanese Embassy regarding the problems of Japanese diplomacy in effecting the China policy.	398
Nov. 6 (121)	*From the Counselor of Embassy in China (tel.)* Confirmation by the Japanese Assistant Military Attaché of arrests of Chinese allegedly connected with the Blue Shirt Society.	399
Nov. 6	*From the Ambassador in China* Summary of conversation with Chinese officials and intellectuals with regard to the "probability" of active military measures against the Japanese in the near future.	400
Nov. 7 (122)	*From the Counselor of Embassy in China (tel.)* Advice of appointment of two close followers of Sung Cheh-yuan to important posts.	402
Nov. 9 (126)	*From the Counselor of Embassy in China (tel.)* Information regarding the existence of a list of Chinese suspects in North China, and report of many arrests both by Chinese and Japanese and the departure from North China of a considerable number of suspects.	402
Nov. 9 (70)	*From the Ambassador in China (tel.)* Japanese difficulty in attempting to create a single regime to include all five northern Chinese provinces, and growing apprehension over the probable refusal of the Chinese to accede to further Japanese demands.	403

THE FAR EASTERN CRISIS

CHAPTER V: NOVEMBER 1–DECEMBER 31, 1935—Continued

Date and number	Subject	Page
1935 Nov. 9 (38)	*From the Ambassador in China* Comments by Dr. Chiang Monlin, Chancellor of the National Peking University, in regard to Chinese preparations for military resistance; his intention to return to Peiping despite warning of his inclusion on the list of suspects.	403
Nov. 11 (72)	*From the Ambassador in China (tel.)* Outline of three desiderata in Japan's policy toward China; Japanese intention, in the event of China's nonconcession, to foster harassing autonomous movements rather than to take drastic action.	404
Nov. 12 (133)	*From the Counselor of Embassy in China (tel.)* Information regarding current conduct of Sino-Japanese relations.	406
Nov. 12 (30)	*To the Ambassador in China* Concurrence in opinion that further effort toward revision of part II, paragraph 4, of the Shanghai Defense Scheme would serve no useful purpose.	406
Nov. 12 (72)	*From the Ambassador in China* Observations concerning realization by Chinese groups of the necessity for adopting a common policy against foreign aggression, and their recognition of the inherent weakness of the policy of "conciliation".	407
Nov. 13 (74)	*From the Ambassador in China (tel.)* Opening of Fifth Kuomintang Congress; prevalent theory among some Chinese that recrudescence of Japanese activity in North China is partially the result of Japanese displeasure at apparent progress in the unification of various Chinese political factions with the National Government.	411
Nov. 13 (137)	*From the Counselor of Embassy in China (tel.)* Press interview given by retired Japanese General Matsui, indicating his opinions as to the probable administration and functioning of "The new Northern autonomous government," and his belief that Japan should take any necessary action to liberate the Chinese people from oppression.	412
Nov. 13 (209)	*From the Chargé in Japan (tel.)* Information from the Foreign Office concerning its attitude in regard to recent anti-Japanese incidents in Shanghai.	413
Nov. 14 (75)	*From the Ambassador in China (tel.)* Oral representations by the Japanese Embassy requesting the Foreign Office to take measures looking toward the cessation of anti-Japanese activities and the suppression of anti-Japanese organizations.	414
Nov. 14 (674)	*From the Consul General at Shangahi (tel.)* Tense conditions in Shanghai, with numerous anti-Japanese incidents; considerable exodus from Chapei to the International Settlement.	415
Nov. 15 (77)	*From the Ambassador in China (tel.)* Conversation with Suma of the Japanese Embassy, who stated that Sino-Japanese diplomatic discussions were at a standstill, and that indications pointed to a stiffening of the Chinese attitude toward Japan.	416

THE FAR EASTERN CRISIS

CHAPTER V: NOVEMBER 1–DECEMBER 31, 1935—Continued

Date and number	Subject	Page
1935		
Nov. 15 (80)	*From the Ambassador in China (tel.)* Information from the Vice Minister for Foreign Affairs regarding the present critical stage of Sino-Japanese relations; Japanese mistrust of China's monetary measures and suspicion of a military understanding with the Soviet Union.	417
Nov. 15 (677)	*From the Consul General at Shanghai (tel.)* Continuing exodus of Chinese from Chapei; many alarming rumors, with Chinese statements of reassurance and Japanese requests for calmness; opinion that Japanese have no intentions of military activity in the Yangtze Valley.	418
Nov. 15 (181)	*From the Consul General at Mukden to the Ambassador in China* Conversation with the Vice Minister for Foreign Affairs concerning the matter of import duties on official supplies for the Consulates General at Harbin and Mukden.	419
Nov. 16 (151)	*From the Counselor of Embassy in China (tel.)* Arrival of some 3,000 Japanese troops at Shanhaikwan; unconfirmed report of Japanese order for 10 trains in "Manchoukuo" to move troops westward.	420
Nov. 16 (83)	*From the Ambassador in China (tel.)* Suma's observations in regard to division in Chinese attitude toward Japan as evidenced in the Fifth Kuomintang Congress, and information concerning concentration areas of Chinese troops.	420
Nov. 18 (154)	*From the Counselor of Embassy in China (tel.)* From Mukden, November 17: Information regarding recent night movements of troop trains to Shanhaikwan, also preparations to take over Shanhaikwan–Peiping Railway if necessary; Japanese troops held in readiness for emergencies.	421
Nov. 18 (85)	*From the Ambassador in China (tel.)* Synopsis of a Reuters news despatch indicating Chinese anxiety over the threatened Japanese invasion, with the dilemma of either consenting to political detachment of North China or seeing military occupation of Chinese territory.	421
Nov. 18 (157)	*From the Counselor of Embassy in China (tel.)* Observations with respect to progress in Japanese plans for a new regime in North China.	422
Nov. 19 (89)	*From the Second Secretary of Embassy in China (tel.)* Reuters news despatch to the effect that the five Northern provinces are to declare autonomy on November 20; Suma's prediction that the declaration will not be made so soon, and that disorders will increase.	423
Nov. 19 (90)	*From the Second Secretary of Embassy in China (tel.)* Confidential information from a Foreign Office official regarding expected early crystallization of the North China situation.	423
Nov. 19 (177)	*To the Chargé in Japan (tel.)* Instructions to report fully all important developments affecting relations between China and Japan, including Embassy's comments and analysis.	424

THE FAR EASTERN CRISIS

CHAPTER V: NOVEMBER 1–DECEMBER 31, 1935—Continued

Date and number	Subject	Page
1935 Nov. 19 (161)	*From the Counselor of Embassy in China (tel.)* Press information regarding Doihara's insistence upon an autonomous government in North China, with threats of force in the event of military action by the National Government against the new regime. Reported decision by Northern leaders to create a new organization to be called the Anti-Communist Autonomous Commission of North China.	424
Nov. 20 (91)	*From the Second Secretary of Embassy in China (tel.)* Summary of Chiang Kai-shek's address before the Fifth Kuomintang Congress, revealing Chiang's official attitude toward the North China crisis and Sino-Japanese relations in general.	426
Nov. 20 (212)	*From the Chargé in Japan (tel.)* Information pertaining to Japanese troop movements toward North China; vernacular newspaper reports concerning Japanese policy in regard to the autonomy movement.	427
Nov. 20 (163)	*From the Counselor of Embassy in China (tel.)* Postponement of the formation of the new regime in North China; interpretation by one Chinese official of Chiang Kai-shek's speech before the Kuomintang as indicative of China's specific intentions.	428
Nov. 20 (178)	*To the Chargé in Japan (tel.)* Request for text of a reported Foreign Office statement denying Japanese responsibility for the autonomy movement in North China, and instructions to cable any further Japanese official statements pertaining to the North China situation.	428
Nov. 20 (94)	*From the Second Secretary of Embassy in China (tel.)* Information in regard to the War Minister's signature of an agreement for the demilitarization of Hopei and other parts of North China, Japanese assurances of no military action in China except for defense purposes, and expectation of an autonomous regime soon.	429
Nov. 20	*Memorandum by the Ambassador in China* Conversation with the British Ambassador and Leith-Ross, British economic representative, analyzing Sino-Japanese political situation.	429
Nov. 21 (96)	*From the Counselor of Embassy in China (tel.)* Conference between Ariyoshi, the Japanese Ambassador, and Chiang Kai-shek, which seemingly has averted a crisis for the time being.	431
Nov. 21 (213)	*From the Chargé in Japan (tel.)* No confirmation of reported Foreign Office statement referred to in the Department's No. 178 of November 20.	432
Nov. 21 (97)	*From the Counselor of Embassy in China (tel.)* Foreign Office version of Ariyoshi-Chiang conference, and confirmation of earlier information concerning the Chinese Government's willingness to discuss Foreign Minister Hirota's three-point program.	432
Nov. 21 (166)	*From the Counselor of Embassy in China (tel.)* Uncertainty concerning the next measures to be taken by the Japanese military in regard to the intended North China regime.	433

THE FAR EASTERN CRISIS

CHAPTER V: NOVEMBER 1–DECEMBER 31, 1935—Continued

Date and number	Subject	Page
1935		
Nov. 22 (351)	*To the Ambassador in the United Kingdom (tel.)* Request for verification of a London press report that Great Britain had exerted diplomatic pressure in both China and Japan to check the move for an autonomous North China.	434
Nov. 22 (179)	*To the Chargé in Japan (tel.)* Request for telegraphic report and analysis of reliable information in regard to the North China situation, and an estimate of probable future developments.	434
Nov. 22 (501)	*From the Ambassador in the Soviet Union (tel.)* Litvinov's belief that negotiations between "Manchoukuo" and the "Mongolian Republic" will be broken off, and that Japan, although provoking frontier incidents, will make no serious move against the "Republic" for a long time.	435
Nov. 23 (172)	*From the Counselor of Embassy in China (tel.)* Opinion in regard to four possible courses open to Chiang Kai-shek; rumors of a military agreement between Chinese and Japanese authorities.	435
Nov. 23 (214)	*From the Chargé in Japan (tel.)* Efforts to obtain and evaluate data as requested in Department's No. 179 of November 22.	436
Nov. 25	*From the Consul General at Tientsin (tel.)* Account of activity in the native city in connection with the autonomy movement, and report of armored cars in front of the heavily guarded Peace Preservation Corps.	437
Nov. 25 (175)	*From the Counselor of Embassy in China (tel.)* Announcement by officials of the demilitarized zone of the establishment of the Eastern Hopei Communist Prevention Autonomous Council, denunciation of the Kuomintang, and the separation of the demilitarized zone from the Central Government.	438
Nov. 25 (176)	*From the Counselor of Embassy in China (tel.)* Inauguration of new regime at Tungchow.	439
Nov. 25 (216)	*From the Chargé in Japan (tel.)* Résumé by the Vice Minister for Foreign Affairs of recent Sino-Japanese relations, with apparently frank indication that although Japanese demands remain unchanged, the general attitude is not so uncompromising as previously seemed to be the case.	440
Nov. 26 (108)	*From the Counselor of Embassy in China (tel.)* Japanese attempt to secure definite Chinese commitment on North China, where the autonomy movement temporarily collapsed November 20; plausible explanation by a Chinese official of Japanese about-face.	442
Nov. 26 (109)	*From the Counselor of Embassy in China (tel.)* Information that the Chinese Government will take no overt action against the "autonomous Government" in East Hopei, but will resist by arms any interference south of Hopei; that Suma has asked Chinese Foreign Office for "concrete proposals" to carry out Hirota's three-point program.	443

THE FAR EASTERN CRISIS

CHAPTER V: NOVEMBER 1–DECEMBER 31, 1935—Continued

Date and number	Subject	Page
1935		
Nov. 26 (111)	*From the Counselor of Embassy in China (tel.)* Foreign Office report of certain steps taken which appear to be a form of compliance with Japanese suggestions to Chiang affecting Peiping, Chahar, and Hopei.	444
Nov. 26 (177)	*From the Counselor of Embassy in China (tel.)* Observations in regard to attempted autonomy movement in Tientsin.	444
Nov. 26	*Memorandum by the First Secretary of the American Embassy in Japan of a Conversation With the First Secretary of the Soviet Embassy* Soviet attitude toward Japanese attempt to establish an autonomous state in North China, and toward Outer Mongolia, which in unfriendly hands would endanger the Trans-Siberian Railway.	445
Nov. 27 (179)	*From the Counselor of Embassy in China (tel.)* Information concerning Japanese troop movements.	446
Nov. 27	*From the Consul General at Tientsin (tel.)* Further report of Japanese troop concentrations.	447
Nov. 27 (219)	*From the Chargé in Japan (tel.)* Attitude in Japan in regard to the autonomous state in the demilitarized zone in North China; Foreign Office views concerning forthcoming visit of C. T. Wang, former Chinese Minister for Foreign Affairs.	447
Nov. 27 (595)	*From the Ambassador in the United Kingdom (tel.)* Foreign Office instructions to the British Chargé in Japan to point out to the Foreign Minister the British Government's concern over disturbing reports of Japanese activities aimed at administrative separation of North China, and desire for assurances that the Nine Power Treaty principles are being observed.	448
Nov. 27 (113)	*From the Counselor of Embassy in China (tel.)* Summary of Suma's comments in regard to the Chinese Government's "unilateral" measures in the Sino-Japanese situation and the certainty of serious trouble if the autonomy movements are suppressed.	449
Nov. 27 (182)	*From the Counselor of Embassy in China (tel.)* Arrival of Japanese troops at various railway stations between Tientsin and Shanhaikwan; evaluation of Peiping situation in view of Japanese demonstrations of force.	450
Nov. 27 (183)	*From the Counselor of Embassy in China (tel.)* From Harbin: Confirmation by Japanese Consulate General of press statements reporting the failure of the Manchuli Conference, and Hsinking Foreign Office opinion that Outer Mongolia is responsible for the failure.	451
Nov. 28 (223)	*From the Chargé in Japan (tel.)* Information from Army authorities that no additional Japanese troops have been sent to North China, and that troop movements there are garrison units moving in connection with annual inspection.	451

THE FAR EASTERN CRISIS

CHAPTER V: NOVEMBER 1–DECEMBER 31, 1935—Continued

Date and number	Subject	Page
1935		
Nov. 28 (185)	*From the Ambassador in China (tel.)* Opinion that purposes of Japanese troop movements have been to prevent rumored removal southward of railway rolling stock and to frighten Chinese leaders into agreement with Japanese wishes.	452
Nov. 28 (114)	*From the Counselor of Embassy in China (tel.)* Confidential information that the Chinese Ambassador at Washington will probably be instructed to call on the Secretary of State in connection with the North China situation. Foreign Office views concerning Japanese troop movements.	453
Nov. 29 (185)	*To the Chargé in Japan (tel.)* Request for comments concerning reported British Foreign Office instructions to the British Chargé in Tokyo. (The same to the Ambassador in China.)	454
Nov. 29 (186)	*From the Ambassador in China (tel.)* Belief that major part of troops arriving in North China during the last few days belong to the Kwantung Army.	454
Nov. 29 (116)	*From the Counselor of Embassy in China (tel.)* Vice Minister's comments clarifying newspaper reports regarding recent occurrences in North China; no expectation of early adjustment of Sino-Japanese controversies.	455
Nov. 30 (118)	*From the Counselor of Embassy in China (tel.)* Note from Foreign Office (text printed) regarding the National Government's order for the dismissal and arrest of Yin Yu-keng, instigator of attempted revolt against the National Government.	455
Nov. 30 (119)	*From the Counselor of Embassy in China (tel.)* Information that the Foreign Office has lodged with the Japanese Embassy a written protest against Japanese instigation of the so-called autonomy movement in North China.	456
Nov. 30 (64)	*To the Ambassador in China (tel.)* Conversation with the Chinese Ambassador in regard to the North China situation.	456
Nov. 30 (188)	*From the Ambassador in China (tel.)* Reports of decision by the Chahar clique to declare autonomy in the North, brought about apparently by the Kwantung Army's show of force rather than by any growing sentiment toward that end.	457
Nov. 30 (189)	*From the Ambassador in China (tel.)* Arrival at Shanhaikwan of 10 trainloads of Japanese troops from the North.	457
Nov. 30 (120)	*From the Counselor of Embassy in China (tel.)* Information from Hsu Mo, Political Vice Minister for Foreign Affairs, regarding Chinese determination to suppress an autonomous state if declared and to oppose with armed force Japanese troops if injected into North China.	458
Dec. 1 (121)	*From the Counselor of Embassy in China (tel.)* Departure of Chinese officials for Peiping to deal with Sino-Japanese relations.	458

THE FAR EASTERN CRISIS

CHAPTER V: NOVEMBER 1–DECEMBER 31, 1935—Continued

Date and number	Subject	Page
1935		
Dec. 1 (49)	*From the Ambassador in China* Summary of remarks made by Hsu Mo to the Embassy's guest, Mr. William Allen White, denouncing Japanese activities in China.	459
Dec. 2 (225)	*From the Chargé in Japan (tel.)* Japanese opinion that presence of Leith-Ross in China concerns political intrigues and not government finance; Embassy's belief that the Japanese are offering inducements to keep the North China autonomists in line.	459
Dec. 2 (191)	*From the Ambassador in China (tel.)* Opinion that it would be valueless to bring up the matter of principles of the Nine Power Treaty with the Japanese Foreign Office. Opinions regarding Japanese activities and the autonomy movement.	460
Dec. 2 (192)	*From the Ambassador in China (tel.)* Information concerning Japanese troop assignments; also Japanese military request that Peiping Railway officials cease telegraphic communications to the National Government on political and technical phases of the North China situation.	462
Dec. 2 (226)	*From the Chargé in Japan (tel.)* Conversation between Military Attaché and a War Office liaison officer concerning Japanese troop movements; Military Attaché's impression that some sort of agreement has been reached between the Japanese and the Nanking Government in regard to the North China autonomy movement.	462
Dec. 2	*Memorandum by the Chief of the Division of Far Eastern Affairs* Considerations in connection with the question of a possible diplomatic approach to Japan in regard to the North China matter; conclusion that United States should make a statement to the British expressing sympathy with their efforts in respect to the Nine Power Pact, and that the Secretary should make a prepared statement to the press for publication.	463
Dec. 3 (125)	*From the Counselor of Embassy in China (tel.)* Confidential report of certain officials' determination that Chiang must either fight the Japanese or retire from the Government.	467
Dec. 3 (193)	*From the Ambassador in China (tel.)* Advice of propaganda pamphlets being distributed from planes over Peiping, apparently by the new regime in demilitarized zone; of negotiations for a compromise proposal for the administration of the five Northern provinces; and of expectation of immediate Japanese action in Tientsin.	468
Dec. 4 (126)	*From the Counselor of Embassy in China (tel.)* Advice regarding plans under way for establishing a special new administration for Hopei, headed by Ho Ying-chin.	468
Dec. 4 (228)	*From the Chargé in Japan (tel.)* Opinion that any protest to Japan regarding Nine Power Treaty violations would have to be backed by irrefutable proof. Belief that Japan will fight if necessary to carry out her aims in North China.	469

THE FAR EASTERN CRISIS

CHAPTER V: NOVEMBER 1–DECEMBER 31, 1935—Continued

Date and number	Subject	Page
1935 Dec. 4	*Memorandum by the Chief of the Division of Far Eastern Affairs of a Radiotelephone Conversation With the American Delegation Aboard the S. S. "Aquitania"* Delegation's view that a U. S. inquiry to Tokyo similar to that of the British Government would be helpful to the Delegation at the Naval Conference; Department's plan to take other action.	470
Dec. 5 (202)	*From the Ambassador in China (tel.)* Advice concerning Japanese dissatisfaction with Ho Ying-chin's arrival and the National Government's efforts to solve the North China situation.	471
Dec. 5 (128)	*From the Counselor of Embassy in China (tel.)* Account of conversation with the Acting President of the Executive Yuan, who spoke of anticipated further Japanese encroachments, and of Japan's extensive ambitions in the Far East.	472
Dec. 5 (191)	*To the Chargé in Japan (tel.)* Statement issued by the Secretary for publication December 6 (text printed) on the U. S. attitude toward the autonomy movement in North China.	473
Dec. 5 (380)	*To the Ambassador in the United Kingdom (tel.)* Instructions to inform the Foreign Office of the Secretary's press statement for publication December 6, and of U. S. close observation of developments in North China and hope for continued free and frank exchange of views with the British. Instructions to inform American delegation to the Naval Conference of this telegram.	474
Dec. 6 (203)	*From the Ambassador in China (tel.)* Advice of seeming inevitability of autonomy in Hopei and Chahar, activity of planes over Peiping, and civilian demonstration in front of Ho's residence in favor of autonomy.	474
Dec. 6 (118)	*From the Ambassador in China* Advice that Dr. Chiang Mon-lin, Chancellor of the National University of Peking, was summoned to headquarters of Japanese *Gendarmerie* and questioned in a locked room concerning his alleged anti-Japanese views.	475
Dec. 7 (129)	*From the Counselor of Embassy in China (tel.)* Unofficial reports as to appointments of new government officials.	477
Dec. 7 (233)	*From the Chargé in Japan (tel.)* General restraint of Japanese newspapers in regard to the Secretary's press statement concerning Sino-Japanese relations in North China.	477
Dec. 7 (130)	*From the Counselor of Embassy in China (tel.)* Account of conversation with Foreign Office officials in respect to the Secretary's press statement.	478
Dec. 8 (209)	*From the Ambassador in China (tel.)* Expectation of the establishment at Hopei and Chahar of semi-autonomous government with the National Government's acquiescence.	479

THE FAR EASTERN CRISIS

CHAPTER V: NOVEMBER 1–DECEMBER 31, 1935—Continued

Date and number	Subject	Page
1935 Dec. 9 (131)	*From the Counselor of Embassy in China (tel.)* Opinion of Kung, Acting President of the Executive Yuan, that continued U. S. and British interest in treaty observance will tend to restrain activities of the Japanese military with regard to North China.	480
Dec. 9 (211)	*From the Ambassador in China (tel.)* Student demonstrations against the autonomy movement. Kwantung Army's disapproval of the proposed Council for Hopei and Chahar, reputedly favored by Japanese authorities and the Chinese National Government.	480
Dec. 9 (1582)	*From the Chargé in Japan* Reported close relations between German and Japanese General Staffs; Soviet Embassy's opinion that both Germany and Poland collaborate with the Japanese General Staff.	481
Dec. 10 (213)	*From the Ambassador in China (tel.)* Difficulties attendant upon premature establishment of the proposed Council. Japanese branding of student demonstration as Communist. Report of fighting in Eastern Chahar between "Manchoukuo" forces and Chinese Peace Preservation Corps.	482
[Dec. 11] (218)	*From the Ambassador in China (tel.)* Comments in regard to the lull in activities bearing on the present political situation.	483
Dec. 12 (239)	*From the Chargé in Japan (tel.)* Information from the Japanese War Office of satisfaction with progress made in Hopei and Chahar, no present intention to increase combat forces of the North China garrison, and of orders to Japanese Army to arrest the Japanese "China Ronin" who have been making trouble in North China.	483
Dec. 12 (136)	*From the Second Secretary of Embassy in China (tel.)* List of Cabinet Ministers named by the Central Executive Committee.	484
Dec. 12 (137)	*From the Second Secretary of Embassy in China (tel.)* Mandate issued by National Government giving names of members of the Hopei–Chahar Political Affairs Commission.	484
Dec. 12 (138)	*From the Second Secretary of Embassy in China (tel.)* Confidential information from a Foreign Office official that he does not consider the new arrangement in the North as a diplomatic victory for China, nor does he anticipate that it will be successful; that he believes the Chinese should have waited for Japan to try force, as it will in the end.	485
Dec. 12 (139)	*From the Second Secretary of Embassy in China (tel.)* List of additional appointees to new Hopei–Chahar Commission.	486
Dec. 13 (140)	*From the Second Secretary of Embassy in China (tel.)* Information on background of the establishment of the new arrangement for the special administration in Hopei and Chahar, with an indication of the extent of control by the National Government.	486

THE FAR EASTERN CRISIS

CHAPTER V: NOVEMBER 1–DECEMBER 31, 1935—Continued

Date and number	Subject	Page
1935		
Dec. 13 (141)	*From the Second Secretary of Embassy in China (tel.)* Information regarding the various "Cabinet" changes and appointments indicating a decline in Kuomintang power.	487
Dec. 13 (223)	*From the Ambassador in China (tel.)* Brief survey of situation in North China under the new Council, whose functions have not yet been made public; belief that the area in Chahar north of the Great Wall will be controlled by the Japanese military through manipulation of the Mongols.	488
Dec. 14 (520)	*From the Chargé in the Soviet Union (tel.)* Conversation between the Chinese Ambassador and Litvinov on the attitude of the Soviet Government toward any threat to Far Eastern peace; Litvinov's opinion that Japan will take no immediate armed action against Mongolia. Information that a large Mongolian delegation has arrived in Moscow for conferences.	489
Dec. 14 (227)	*From the Ambassador in China (tel.)* Reports of withdrawal of Japanese troops northward; observation that this may indicate Japanese satisfaction with the North China situation.	490
Dec. 18 (233)	*From the Ambassador in China (tel.)* Report of Japanese military demands in regard to recent student demonstrations; inauguration of Hopei–Chahar Political Council; expectation that Japanese will extend the demilitarized zone to include Tientsin.	491
Dec. 18 (1600)	*From the Ambassador in Japan* Information from the British Ambassador that the Japanese are apparently willing to conclude nonaggression pacts with Great Britain and the United States, but that the Japanese military regard war with the Soviet Union as inevitable.	492
Dec. 20 (532)	*From the Chargé in the Soviet Union (tel.)* Report of serious Mongol-Japanese incident in Outer Mongolia following Soviet warning that provocations were about to take place; reason for attempt of Soviet officials to minimize the border difficulties.	492
Dec. 20 (236)	*From the Ambassador in China (tel.)* Information concerning Japanese agreement to let the new Political Council function for 3 months on trial.	493
Dec. 21 (240)	*From the Ambassador in China (tel.)* From Nanking, December 20: Japanese Ambassador's conversation with Chiang Kai-shek; Japanese disappointment over Chinese toleration of student agitation in North China.	493
Dec. 23 (243)	*From the Ambassador in China (tel.)* Observations concerning the handling of Sino-Japanese matters under the 3-month trial of the new Council.	494
Dec. 24 (788)	*From the Consul General at Shanghai (tel.)* Efforts of Chinese authorities to control demonstration by students at North Station demanding transportation to Nanking to interview Government leaders; student efforts to distribute pamphlets, and plan to seize South Station.	495

THE FAR EASTERN CRISIS

CHAPTER V: NOVEMBER 1–DECEMBER 31, 1935—Continued

Date and number	Subject	Page
1935		
Dec. 24 (789)	*From the Consul General at Shanghai (tel.)* Information from reliable source that the Japanese naval landing force take a serious view of the Shanghai developments and will act independently, if necessary, to control the situation.	495
Dec. 24 (790)	*From the Consul General at Shanghai (tel.)* Continuing efforts by Chinese authorities and university representatives to disperse the students.	496
Dec. 24 (792)	*From the Consul General at Shanghai (tel.)* Report that efforts to disperse students by peaceful means have been exhausted; that some 2,000 were permitted to board train ostensibly for Nanking. Japanese conviction that anti-Chiang elements in the Nationalist Party are the instigators of these disturbances.	497
Dec. 25 (793)	*From the Consul General at Shanghai (tel.)* Easing of the difficulties stemming from student demonstrations.	497
Dec. 26 (246)	*From the Ambassador in China (tel.)* From Shanghai, December 25: Assassination of Tang Yu-jen, former Vice Minister for Foreign Affairs; Japanese view that event demonstrates inability of Chinese authorities to prevent outrages by elements inimical to Sino-Japanese cooperation.	498
Dec. 26 (154)	*From the Second Secretary of Embassy in China (tel.)* Information concerning efforts to control movements of demonstrating students.	498
Dec. 27 (247)	*From the Ambassador in China (tel.)* Hopei–Chahar Political Council's appointment of Chen Chueh-cheng as acting managing director of the Peiping–Mukden Railway without prior approval of the National Government.	499
Dec. 27 (157)	*From the Second Secretary of Embassy in China (tel.)* Report that the Shanghai students at Wusih have entrained for Shanghai.	500
Dec. 27 (1607)	*From the Ambassador in Japan* Memorandum of a conversation between a member of the Embassy staff and Mr. Kurusu, of the Japanese Foreign Office (text printed), concerning the aims of the Japanese people.	500
Dec. 31 (160)	*From the Counselor of Embassy in China (tel.)* Statement from the Foreign Office in regard to a preliminary Sino-Japanese exchange of opinions looking toward a fundamental readjustment of relations.	502
1936		
Jan. 3 (147)	*From the Ambassador in China* Review of political, military, and economic developments in China during the past 6 months.	502

CHINA

RAISING OF THE AMERICAN LEGATION IN CHINA TO THE STATUS OF EMBASSY AND ABOLITION OF THE CONSULATE GENERAL AT NANKING

Date and number	Subject	Page
1935 May 9 (101)	*From the Ambassador in Japan (tel.)* Advice of Japanese intention to raise its mission in China to status of an embassy, with reasons therefor, and indication that Japan would be pleased should the United States decide to take a similar step.	508
May 9	*Memorandum by the Assistant Chief of the Division of Far Eastern Affairs* Views in regard to raising the diplomatic mission in China to the rank of embassy.	509
May 11 (100)	*From the Minister in China (tel.)* Confidential report from the Vice Minister for Foreign Affairs that Chinese Legation in Japan and Japanese Legation in China will be raised to status of embassies very soon.	511
May 14 (80)	*To the Ambassador in Japan (tel.)* Instructions to inform Foreign Office that United States is exchanging views with other countries relative to raising the missions in China to embassies, and to express appreciation for advance notice affording opportunity for simultaneous action.	511
May 14	*From the British Embassy* British intention to raise status of Legation in China.	512
May 15 (106)	*From the Ambassador in Japan (tel.)* Advice from Foreign Minister that official announcement of change in status of Japanese mission will be withheld to give the United States the opportunity for simultaneous announcement.	512
May 15 (36)	*To the Consul at Nanking (tel.)* For the Minister: Instructions to inform the Foreign Minister that the President has approved raising the American Legation in China to an Embassy, and that the U. S. Government would be pleased to have the Chinese Legation in Washington similarly raised.	513
May 16	*To the British Embassy* Advice of President's approval of raising the American Legation in China to the status of an Embassy.	514
May 22 (115)	*From the Minister in China (tel.)* Request for information regarding Department's intended procedure in bringing about the change in status.	514
May 22	*From the Minister in China* Views as to probable motives of the Japanese in elevating their Legation in China to an Embassy.	514
May 28 (221)	*From the Minister in China (tel.)* Plans for the British Minister to present credentials as Ambassador.	516
May 29 (145)	*To the Minister in China (tel.)* Instructions to investigate and submit recommendations in regard to the practicability of establishing a Shanghai–Nanking arrangement similar to the Peiping–Tientsin arrangement for taking care of consular functions.	516

CHINA

RAISING OF THE AMERICAN LEGATION IN CHINA TO THE STATUS OF EMBASSY AND ABOLITION OF THE CONSULATE GENERAL AT NANKING—Continued

Date and number	Subject	Page
1935 May 31 (1329)	*From the Ambassador in Japan* Observations in regard to Japanese publication of decision to raise status of its Legation in China without waiting for other interested governments to make simultaneous announcement. Japanese press comment on the raising of status of the mission in China.	517
June 6 (151)	*To the Minister in China (tel.)* Notification of appointment as Ambassador, and instructions to request *agrément* from the Chinese Government.	520
June 9 (145)	*From the Minister in China (tel.)* Chinese acceptance of ambassadorial appointee.	520
June 13 (267)	*From the Minister in China (tel.)* Information as requested in Department's No. 145 of May 29, indicating practicability of the proposed Shanghai–Nanking arrangement.	521
June 19 (178)	*To the Minister in China (tel.)* Agreement of the American Government with the proposed promotion of Minister Sze to be Ambassador to the United States.	522
June 21 (181)	*To the Minister in China (tel.)* Senate confirmation of appointment as Ambassador; details in regard to new status.	522
June 26 (317)	*From the Minister in China (tel.)* Information concerning date for presenting letters of credence.	523
July 3 (198)	*To the Minister in China (tel.)* Instructions to inform British Legation informally in regard to the new arrangement to be put into effect at Nanking for facilitating work of mission. (Footnote: Closing of Consulate General at Nanking, September 17, the date on which Legation became an Embassy.)	523
July 16	*To the Counselor of Embassy in the United Kingdom* Transmission of summary of Department's record of developments which resulted in announcements that three legations in China were to be raised to embassies; views as to the desirability and methods of cooperation between the U. S. and British Governments.	524
Aug. 20 (254)	*To the Minister in China (tel.)* Advice that the Chinese Ambassador is to present his letters of credence to the President on August 21.	526

CHINA

PROBLEM OF CHINA'S ECONOMIC RECONSTRUCTION AND THE ATTITUDE OF THE UNITED STATES AND OTHER GOVERNMENTS RESPECTING FINANCIAL ASSISTANCE TO CHINA

Date and number	Subject	Page
1935 Jan. 5	*Memorandum by the Chief of the Division of Far Eastern Affairs* Information from the Chinese Minister that T. V. Soong is to represent China in conversations regarding silver; also that the Minister has discussed with the Secretary of the Treasury the possibility of United States purchasing from China 10 million ounces of silver promised to the Cuban Government. (Footnote: Canceling of Soong's proposed trip.)	526
Jan. 8 (5)	*To the Consul General at Shanghai (tel.)* Information that the American Chinese Trade Council, New York, proposes to send to China an unofficial American economic mission to study the possibility of increasing Sino-American trade.	527
Jan. 10	*Memorandum by the Secretary of State* Conversation with the Chinese Minister reiterating U. S. willingness to consider any plan offered by the Chinese Government relative to the silver problem.	527
Jan. 17 (13)	*To the Consul General at Shanghai (tel.)* Advice that the National Foreign Trade Council will sponsor an economic mission to China, Japan, and the Philippines to discuss mutual problems affecting trade; instructions to refer any inquiries to the Council.	527
Undated [Rec'd Jan. 21]	*From the Chinese Minister of Finance to the Chinese Legation* Proposal that United States limit the silver purchase price pending further negotiation and adopt measures to avoid purchasing silver illegally exported from China, and indication of readiness to transmit an outline for U. S. consideration.	528
Jan. 26	*To the Chinese Legation* Indication that the Silver Purchase Act is mandatory; willingness to give the outline careful consideration upon its receipt.	529
Jan. 26	*To the Chinese Legation* Statement that the U. S. Government has received no data specifically indicating the character and extent of adverse effects reputedly caused in China by the U. S. silver purchasing program.	529
Jan. 30	*Memorandum by the Chinese Minister of Finance* Summary of previously submitted data together with a further statement of the disturbing effects of the American silver program upon the Chinese economic and financial situation.	530
Jan. 31	*From Mr. T. V. Soong, of the Chinese National Economic Council, to the American Ambassador in the Soviet Union, Temporarily in Washington* Expression of hope for U. S. favorable consideration of a forthcoming Chinese proposal for an American loan which will avert a disastrous currency collapse.	532
Feb. 5	*From the Chinese Minister* Submission of plan, including a proposed U. S. loan, looking toward the solution of the Chinese silver difficulty and encouraging trade development.	533

CHINA

PROBLEM OF CHINA'S ECONOMIC RECONSTRUCTION AND THE ATTITUDE OF THE UNITED STATES AND OTHER GOVERNMENTS RESPECTING FINANCIAL ASSISTANCE TO CHINA—Continued

Date and number	Subject	Page
1935		
Feb. 5	*From the Chinese Minister* Observation that an exclusive silver purchasing arrangement with China would discourage smuggling and facilitate the Government's obtaining desired quantities from the Chinese public.	535
Feb. 14	*Memorandum by the Chief of the Division of Far Eastern Affairs* Conversation with Treasury officials during which Secretary Morgenthau indicated his disapproval of the Department's proposed reply to the Chinese Minister's notes of February 5.	535
Feb. 18 (70)	*From the Consul General at Shanghai (tel.)* Information on the formation of a Monetary Advisory Committee, appointed to develop China's economic strength and to handle the present difficult situation.	537
Feb. 19	*Memorandum by the Assistant Chief of the Division of Far Eastern Affairs* Opinion that inclusion in the personnel of the American Economic Mission to China of any officers of the Government would be unfortunate, since it would be interpreted as a political factor.	538
Feb. 19	*Draft Note to the Chinese Minister* Draft reply to notes of February 5, rejecting suggested silver plan, but offering to cooperate with other governments, should China desire, in exploring possibilities of collective assistance in Chinese currency reforms.	539
Feb. 20	*To President Roosevelt* Transmittal of the draft note to the Chinese Minister, together with memorandums concerning Chinese currency reform.	540
Feb. 21	*From President Roosevelt* Opinion that final sentence in draft note to the Chinese Minister should be revised.	540
Feb. 22	*Memorandum by the Second Secretary of Legation in China* Conversation between the American Minister and the Political Affairs Director of the Executive Yuan, concerning the coming visit of an American economic mission to China, the American silver policy, and the possibility of U. S. payment in gold for the purchase of Chinese silver.	541
Feb. 25	*From the British Embassy* Reasons for belief that foreign loans or credits for China would offer no real or lasting remedy.	542
Feb. 26	*To the Chinese Minister* Reply to notes of February 5, indicating U. S. position that the suggested plan for a loan and credit to China would not be practicable.	542
Feb. 27 (41)	*From the Minister in China (tel.)* Conversation with Finance Minister, who described increasing gravity of the monetary situation in Shanghai, and requested U. S. consideration of certain specified points.	543

CHINA

PROBLEM OF CHINA'S ECONOMIC RECONSTRUCTION AND THE ATTITUDE OF THE UNITED STATES AND OTHER GOVERNMENTS RESPECTING FINANCIAL ASSISTANCE TO CHINA—Continued

Date and number	Subject	Page
1935		
Mar. 1 (84)	*From the Chargé in the United Kingdom (tel.)* Confidential views of the British Foreign Office Counselor relative to relieving the Far Eastern tension by an international loan to China.	544
Mar. 1	*Memorandum by the Under Secretary of State* Discussion with the British Ambassador regarding the extension of financial assistance to China.	545
Mar. 2 (63)	*To the Minister in China (tel.)* Reference to press reports of international diplomatic conversations on the possibility of cooperative financial assistance to China, and instructions to avoid discussion of the subject, stating to inquirers that the matter is being handled between the various Foreign Offices concerned.	547
Mar. 2	*To President Roosevelt* Summary of week's developments in regard to relations with China, and opinion that British initiative in the matter of financial assistance should be encouraged.	547
Mar. 4 (44)	*From the Counselor of Legation in China (tel.)* Information indicating slight prospects of success in efforts by Chinese to obtain a large foreign loan from non-Japanese sources.	551
Mar. 4 (106)	*From the Minister in China (tel.)* Comments summarizing the acute financial situation in Shanghai; belief that Treasury authorization for Chase National Bank to leave silver in Shanghai temporarily until crisis has passed would be evidence of U. S. desire to assist.	551
Mar. 4 (47)	*From the Ambassador in Japan (tel.)* Conversation with the British Ambassador concerning international financial assistance to China.	554
Mar. 4	*Memorandum by the Under Secretary of State* Comments made in response to the Chinese Minister's inquiry concerning the Department's reply to the British communication with respect to financial assistance to China.	555
[Mar. 4]	*Oral Statement by the Under Secretary of State to the Japanese Ambassador* Views as expressed to the British and Chinese Governments, in response to inquiries, that financial assistance to China might best be extended by cooperative action of powers most interested and concerned.	556
Mar. 5 (1260)	*From the Chargé in the United Kingdom* Conversations with (1) a Foreign Office official, who states that the Office will not proceed further until the Chinese make proposals, and (2) the Chinese Minister, who said that the initiative must come from London or Washington.	556
Mar. 6 (94)	*From the Chargé in the United Kingdom (tel.)* Observations regarding British Government's preliminary *démarche*.	557

CHINA

PROBLEM OF CHINA'S ECONOMIC RECONSTRUCTION AND THE ATTITUDE OF THE UNITED STATES AND OTHER GOVERNMENTS RESPECTING FINANCIAL ASSISTANCE TO CHINA—Continued

Date and number	Subject	Page
1935 Mar. 8 (71)	*To the Minister in China (tel.)* Release to the press of the Under Secretary's reply (text printed) to inquiries in regard to the recent discussions of Far Eastern affairs with the British Ambassador.	558
Mar. 18 (80)	*To the Minister in China (tel.)* Advice of Treasury Department's views on Chinese suggestions reported in Minister's No. 41 of February 27, with instructions to express Government's regret that it cannot accede to them.	558
Mar. 19 (1204)	*From the Ambassador in Japan* Official and unofficial Japanese views concerning joint international financial aid to China; opinion that indications point to a Japanese return to the principle of befriending instead of coercing China.	560
Mar. 21 (53)	*From the Counselor of Legation in China (tel.)* *Aide-mémoire* from the Foreign Office (text printed) indicating readiness of the National Government to participate in discussions with the U. S., British, Japanese, and French Governments in regard to China's economic and financial difficulties.	563
Mar. 26	*Memorandum by the Chief of the Division of Far Eastern Affairs of a Conversation With the Chinese Minister* Discussions indicating few new developments in connection with international assistance to China.	564
Mar. 27	*Memorandum by the Under Secretary of State* Conversation with the Japanese Ambassador, who doubted whether Foreign Minister Hirota favored the British plan for a joint loan or credit to China.	564
Mar. 28 (58)	*From the Counselor of Legation in China (tel.)* Reported statement of British Minister that Sino-Japanese friendly understanding is essential condition of a loan; apparent lessening of Chinese interest in loan, perhaps due to reports that Japan will not participate.	565
Apr. 3	*Memorandum by the Under Secretary of State* Communication from Japanese Ambassador corroborating earlier oral statement that Japan had made no inquiry of the British relating to the financial situation in China.	566
Apr. 3 (155)	*From the Consul General at Shanghai (tel.)* Reshuffling of the directing personnel in leading Chinese banks, placing the Government in a position to control banking and possibly currency and silver.	566
Apr. 3 (99)	*To the Minister in China (tel.)* Receipt of information that the British contemplate assigning a central bank economic technician to be attached to the British Legation in China; U. S. consideration of a similar assignment.	567
Apr. 4 (78)	*To the Ambassador in the United Kingdom (tel.)* Inquiries regarding the British appointment of an economic technician to China.	568

CHINA

PROBLEM OF CHINA'S ECONOMIC RECONSTRUCTION AND THE ATTITUDE OF THE UNITED STATES AND OTHER GOVERNMENTS RESPECTING FINANCIAL ASSISTANCE TO CHINA—Continued

Date and number	Subject	Page
1935		
Apr. 5	*From the Consul General at Shanghai (tel.)* Statement by the manager of the Mitsubishi Bank urging reliance on self-help, and attributing China's financial difficulties to the U. S. silver purchase policy.	568
Apr. 5 (140)	*From the Minister in China (tel.)* Opinion that the proposed British appointment of an economic technician to China is intended to intensify international interest in China's financial situation, thereby preventing independent action by Japan in China.	569
Apr. 12 (1365)	*From the Ambassador in the United Kingdom* Conversation with Sir Warren Fisher, Secretary of the British Treasury, regarding the British proposal for joint consultation between the United States, England, China, and Japan, which might lead gradually from technical discussions on Chinese finance to cooperation in larger fields.	570
Apr. 13 (149)	*From the Minister in China (tel.)* Conversation with the British Minister concerning the British Government's proposed appointment of a financial expert.	571
Apr. 16 (71)	*From the Second Secretary of Legation in China (tel.)* Information from Ministry of Finance that the recent lowering of the silver seigniorage rate in the United States had rendered the financial situation hopeless; Japanese dissatisfaction with the handling of the question of a foreign loan to China, and departure of British Minister without a Chinese formula for international financial assistance.	572
Apr. 17 (74)	*From the Second Secretary of Legation in China (tel.)* Feeling of Finance Ministry official that British interest in the loan question had cooled, and his admission that Chinese interest had also cooled.	573
Apr. 19 (77)	*From the Second Secretary of Legation in China (tel.)* Conversation with Chinese official concerning Chinese financial predicament and his opinion that currency inflation is inevitable.	574
Apr. 20 (87)	*To the Ambassador in the United Kingdom (tel.)* Advice that an economic observer (Prof. J. L. Buck) has been sent to China, and instructions to inform Foreign Office that this has no connection with the British suggestion relative to cooperative financial assistance to China; request for any pertinent information in regard to the proposed cooperation by the powers in sending financial experts to China.	574
Apr. 25 (186)	*From the Ambassador in the United Kingdom (tel.)* Reply to Department's No. 87 of April 20, indicating progress of the British plans for sending a financial expert to China.	575
Apr. 25	*Memorandum by the Secretary of State* Chinese Minister's expression of his Government's concern over the increase in price of silver and its effect upon the Chinese economic and financial situation.	576

CHINA

PROBLEM OF CHINA'S ECONOMIC RECONSTRUCTION AND THE ATTITUDE OF THE UNITED STATES AND OTHER GOVERNMENTS RESPECTING FINANCIAL ASSISTANCE TO CHINA—Continued

Date and number	Subject	Page
1935 Apr. 25	*Memorandum by the Secretary of State of a Conversation With the Chinese Minister* Chinese Minister's concern over the Borah Resolution prohibiting loans outside the Western Hemisphere.	576
May 1 (88)	*From the Minister in China (tel.)* Request by T. V. Soong for an American economic attaché analogous to the British appointee; Japanese Minister's assertion of Japanese disinterest in direct financial assistance to China or any loan for purpose of currency reform.	577
May 3	*Memorandum by the Consul at Hankow, Temporarily in Washington* Belief that continuation of the U. S. silver policy will so weaken China politically and economically that she will become an easy prey to Japanese ambitions, a development which will seriously affect U. S. interests in China and possibly militate against U. S. relations with Japan.	578
May 6 (757)	*To the Ambassador in Japan* Interest in any information or comments regarding the present attitude of the Japanese Government toward removing the alleged Japanese-ordered boycott of cotton financed by the Reconstruction Finance Corporation and purchased by the Chinese Government.	579
May 10 (93)	*To the Consul General at Shanghai (tel.)* For Prof. J. L. Buck from the Treasury: Instructions to confer with Chinese officials and others for full information regarding existing conditions in the economic field, avoiding discussions of policy construable as negotiations or representations of American official views.	580
May 13	*Memorandum by the Minister in China of a Conversation With the American Treasury Representative in China* Proffer of cooperative assistance to Professor Buck in his study of the financial and economic conditions in China.	580
May 15 (101)	*From the Minister in China (tel.)* Report of plan to reorganize League of Nations' technical activities in China, assigning more competent League personnel to avoid possible replacement of League experts by Japanese advisers.	582
May 15 (103)	*From the Minister in China (tel.)* Letter from Kung (excerpt printed) inquiring whether the Treasury would be willing to cancel the balance of the silver contract or give China the right of further postponing delivery in view of the delicate monetary situation in China.	582
May 15	*Memorandum by the Minister in China* Conversation with Mr. Plant, Shanghai manager of the U. S. Steel Products Co., and Mr. Campbell of the Wilcox-Hayes Co., and member of the American Economic Mission to China, with regard to projects for railway construction in China.	583
May 21 (135)	*To the Minister in China (tel.)* Instructions to report promptly any manifestations of anti-American feeling growing out of the U. S. silver program, and any developments tending toward a boycott of American goods.	584

CHINA

PROBLEM OF CHINA'S ECONOMIC RECONSTRUCTION AND THE ATTITUDE OF THE UNITED STATES AND OTHER GOVERNMENTS RESPECTING FINANCIAL ASSISTANCE TO CHINA—Continued

Date and number	Subject	Page
1935		
May 22 (39)	*To the Consul at Nanking (tel.)* For the Minister: Instructions to incorporate in the reply to Kung's letter the Treasury Department's agreement to postpone delivery of the balance of silver until the end of July 1935.	585
May 23 (40)	*To the Consul at Nanking (tel.)* Inquiry as to whether there would be any objection by the appropriate Chinese authorities to the Reconstruction Finance Corporation's publishing a statement (text printed) of the terms of the cotton and wheat credit agreement. (Footnote: Minister's advice that there was no objection.)	585
May 24 (254)	*From the Consul General at Shanghai (tel.)* Information with regard to American bank failures in China; also report of difficulty in converting notes into hard silver in quantities.	587
May 24 (255)	*From the Consul General at Shanghai (tel.)* Effect of bank failures on American prestige.	587
May 27	*From the Consul at Tsingtao (tel.)* No indications of boycott or anti-American feeling; opinion that real estate slump in Shanghai is playing greater part in financial crisis in China than is the silver program.	588
May 27 (220)	*From the Minister in China (tel.)* From Tsinanfu: Little resentment toward American silver program and no developments tending toward boycott of American goods.	589
May 28 (262)	*From the Consul General at Shanghai (tel.)* Press statement by F. J. Raven, bank official, that the bank failures are directly attributable to the American silver purchasing plan which has drained silver from the country; other indications that U. S. Government will be blamed for any severe collapse in banking and real estate in Shanghai.	589
May 29 (43)	*To the Consul at Nanking (tel.)* For the Minister: Inquiry as to Chinese attitude toward Treasury Department's offer outlined in No. 39 of May 22.	590
May 31 (273)	*From the Consul General at Shanghai (tel.)* Kung's desire to accept U. S. proposal regarding payment for silver.	590
June 7	*From the British Embassy* British appointment of Sir Frederick Leith-Ross as temporary financial adviser in China; expression of hope that U. S. Government will make a similar appointment.	591
June 11 (262)	*From the Minister in China (tel.)* Comments on the British appointment of a financial adviser; opinion that the Chinese financial situation is critical.	591
June 14	*To the British Embassy* Acknowledgment of *aide-mémoire* of June 7, and advice that the United States is considering making a similar appointment.	593

CHINA

PROBLEM OF CHINA'S ECONOMIC RECONSTRUCTION AND THE ATTITUDE OF THE UNITED STATES AND OTHER GOVERNMENTS RESPECTING FINANCIAL ASSISTANCE TO CHINA—Continued

Date and number	Subject	Page
1935 June 18 (320)	*From the Consul General at Shanghai (tel.)* For Secretary Morgenthau: Report that situation is not attributable to the silver policy, but entirely to real estate inflation and overspeculation. (Footnote: Suggestion from Secretary Morgenthau that interview be given out in Shanghai covering information in No. 320 of June 18.)	593
June 19 (295)	*From the Minister in China (tel.)* Belief that anti-American boycott will not develop; apparent abatement of criticism of the American silver purchase policy.	594
June 25 (283)	*From the Ambassador in the United Kingdom (tel.)* Foreign Secretary's statement before the House of Commons (text printed) relative to British hope that United States, France, Japan, and Italy will appoint financial advisers in China.	594
June 26 (287)	*From the Ambassador in the United Kingdom (tel.)* Receipt of unofficial report that French Government has appointed an economic expert to serve in China.	595
July 1	*Memorandum by the Under Secretary of State* Conversation with the British Ambassador regarding a *New York Times* article misinterpreting a comment by the Secretary as an invitation to Leith-Ross to visit Washington, on his way to China, for discussion of various matters of mutual interest.	595
July 9	*Memorandum by the Chief of the Division of Far Eastern Affairs* Conversation with Mr. Morgenthau in regard to extending to Leith-Ross an invitation to discuss Chinese stabilization; reconciliation of State and Treasury positions in draft letter replying to a British inquiry.	596
July 9	*Memorandum by the Chief of the Division of Far Eastern Affairs* Views regarding the differences between the State and Treasury Departments in their conception of the present problem and procedure for dealing with it; reasons for favoring U. S. appointment of a financial attaché to the Peiping Legation.	599
July 10 (1383)	*From the Ambassador in Japan* Meager unofficial information available concerning reported Japanese boycott of American cotton, indicating need for further informal inquiry through official channels.	602
July 12	*Memorandum by the Under Secretary of State* Chinese Minister's hope that United States will decide to send a financial attaché to China.	603
July 12 (353)	*From the Minister in China (tel.)* Advice that it is generally believed that silver smugglers are behind the recent bank run; possibility of a general moratorium on the exchange of silver for bank notes, and that the Japanese may endeavor to obtain control of Chinese currency in the anticipated crisis.	604
July 15	*Memorandum by the Under Secretary of State* Conversation with Secretary Morgenthau, who authorized an affirmative response in the event the British took the initiative in suggesting a visit by Leith-Ross.	605

CHINA

PROBLEM OF CHINA'S ECONOMIC RECONSTRUCTION AND THE ATTITUDE OF THE UNITED STATES AND OTHER GOVERNMENTS RESPECTING FINANCIAL ASSISTANCE TO CHINA—Continued

Date and number	Subject	Page
1935		
July 16	*Memorandum by the Under Secretary of State* Conversations with the British Ambassador, who apparently attached no importance to the failure of Leith-Ross to come to Washington en route to China.	606
July 22	*Memorandum by the Chief of the Division of Far Eastern Affairs* Inquiry from the Chinese Minister regarding designation of an American financial adviser.	607
July 25	*Memorandum by the Chief of the Division of Far Eastern Affairs* Proposal by former Ambassador to Japan, W. Cameron Forbes, of Government aid in reactivating Russell and Company, and his interest in the formation of an American bank in Shanghai, the latter to assist in railway construction in Szechwan; opinion that a most conservative approach to these projects would be wise.	607
July 29	*Memorandum by the Under Secretary of State* President's belief that the best answer to inquiry in regard to an appointment of a financial adviser to China is that the matter is still under advisement.	609
July 29 (224)	*To the Minister in China (tel.)* Instructions to orally inform T. V. Soong that the American Government had made no commitment in regard to sending a financial expert to China, but is considering the matter.	609
Aug. 3 (396)	*From the Minister in China (tel.)* Report on execution of instructions in Department's No. 224 of July 29; Soong's hope that the U. S. Government will send a financial expert to China.	610
Aug. 8 (124)	*To the Ambassador in Japan (tel.)* Opinion that discussion with officials regarding the reported Japanese boycott is not needed in view of nonofficial information in despatch No. 1383 of July 10.	610
Aug. 9 (227)	*From the Second Secretary of Legation in China (tel.)* Inquiry of Finance Minister regarding the name and date of arrival of the American financial expert, and discussion of loan question and Sino-Japanese situation.	611
Aug. 10 (362)	*From the Chargé in the United Kingdom (tel.)* Press statement of Leith-Ross, upon his departure for China via Canada and Tokyo, that he was not going to stop at Washington since he had not been invited to do so.	612
Aug. 11 (206)	*To the Chargé in the United Kingdom (tel.)* Request for information and opinion regarding Leith-Ross' references in his press conference to not visiting the United States on his way to China.	612
Aug. 12 (364)	*From the Chargé in the United Kingdom (tel.)* Information requested in Department's No. 206 of August 11.	613
Aug. 12	*Memorandum by the Under Secretary of State* Conversation with Secretary Morgenthau in effort to get reversal of decision regarding suggested conference with Leith-Ross at the time of his visit in Canada.	614

CHINA

PROBLEM OF CHINA'S ECONOMIC RECONSTRUCTION AND THE ATTITUDE OF THE UNITED STATES AND OTHER GOVERNMENTS RESPECTING FINANCIAL ASSISTANCE TO CHINA—Continued

Date and number	Subject	Page
1935 Aug. 14	*Memorandum by Mr. Raymond C. Mackay of the Division of Far Eastern Affairs* Summary of elements leading to decision against a suggested renewal of the cancelled portion of the cotton and wheat credit which was given China in May 1933.	616
Sept. 7 (173)	*From the Chargé in Japan (tel.)* Arrival of Leith-Ross in Tokyo, and his press statements as to the purpose of his visit.	618
Sept. 16 (286)	*To the Minister in China (tel.)* Instructions to be friendly and cooperative with Leith-Ross; instructions also on how to reply to possible inquiry relative to the sending of a U. S. financial attaché.	618
Sept. 17 (178)	*From the Chargé in Japan (tel.)* For the Secretary of the Treasury: Information that Leith-Ross' interviews with the Japanese in Tokyo had elicited no proposals but had dispelled much of the widespread suspicion in Japan regarding his mission.	619
Sept. 24 (11)	*From the Ambassador in China (tel.)* Finance Minister's request that the Department be informed of China's hope for an American representative to work with Leith-Ross, and Ambassador's reply that he did not know whether the Department had formed any definite intention.	619
Sept. 25 (6)	*To the Ambassador in China (tel.)* View that reply to Finance Minister should preferably have followed the formula outlined in telegram No. 286 of September 16. Reaffirmation of Department's attitude, indicated in No. 71 of March 8, concerning the financial and monetary situation in China. Receipt of information that the French Government is not sending a financial representative to China.	620
Sept. 25 (12)	*From the Ambassador in China (tel.)* Conversation with Leith-Ross, who states that he expects to investigate the Chinese situation toward the end of evolving some practical formula.	620
Sept. 25 (7)	*From the Ambassador in China* Detailed report on the present status and the prospects of technical cooperation between the League of Nations and China.	621
Sept. 26 (14)	*From the Ambassador in China (tel.)* Reply to questions of Arthur Young, American adviser to the Finance Ministry, relative to U. S. attitude toward Leith-Ross' efforts.	623
Oct. 1	*Memorandum by the Ambassador in China of a Conversation With the Standing Member of the Chinese National Economic Council* T. V. Soong's inquiry regarding the American Government's assignment of a financial attaché to China; his opinion that the Japanese will take drastic action in November, and that the silver situation is desperate in Hong Kong.	624

CHINA

PROBLEM OF CHINA'S ECONOMIC RECONSTRUCTION AND THE ATTITUDE OF THE UNITED STATES AND OTHER GOVERNMENTS RESPECTING FINANCIAL ASSISTANCE TO CHINA—Continued

Date and number	Subject	Page
1935 Oct. 3	*Memorandum by the Ambassador in China* Conversation with the Japanese Ambassador, who stated that instability of the Chinese political situation would make a linking of Chinese currency with sterling difficult.	624
Oct. 9 (29)	*From the Counselor of Embassy in China (tel.)* Conversation with Finance Minister Kung, who seemed reticent about the Leith-Ross discussions, but indicated he wished an American representative were present, and said a French representative had been selected.	625
Oct. 14 (10365)	*From the Consul General at Shanghai* Leith-Ross' recommendation to Kung that subsidiary coins with a silver fineness of .500 be issued; assertion that the adoption of this proposal would form an entering wedge for the assumption of a definite relationship between the pound sterling and the Chinese silver dollar.	626
Oct. 25 (57)	*From the Ambassador in China* Transmission of memoranda of conversations indicating a badly deteriorated financial situation in China.	627
Oct. 29	*Memorandum by the Under Secretary of State* Information from the Chinese Ambassador concerning his conference with Secretary of the Treasury Morgenthau in regard to the Chinese Government's desire to sell 100,000,000 ounces of silver.	628
Oct. 31	*From the Ambassador in China (tel.)* Belief among American bankers that the Chinese Government wants to sell its silver holdings to the United States for gold in order to attach the Chinese dollar to the customs gold unit.	628
Nov. 2 (551)	*From the Ambassador in the United Kingdom (tel.)* For Treasury from Butterworth (Third Secretary of Embassy): Advice of a Bank of England committee set up to assist British holders of Chinese bonds; renewed criticism in London of American silver policy as responsible for recent financial difficulties in China.	628
Nov. 2	*From the Ambassador in China (tel.)* Information that Chinese Government plans to take over all silver reserves.	629
Nov. 4 (641)	*From the Consul General at Shanghai (tel.)* Official summary (text printed) of the Government decree on currency reform and the Chinese financial policy.	629
Nov. 4	*From the Ambassador in China (tel.)* Information that the British authorities have advised British nationals to comply with the Chinese Government's decree regarding the nationalization of silver.	630
Nov. 4	*From the Ambassador in China (tel.)* Advice from Leith-Ross that the Chinese decree was not British-instigated; his belief that the Japanese military is hostile to any measures pertaining to China that might originate with or be participated in by Western Nations.	631

CHINA

PROBLEM OF CHINA'S ECONOMIC RECONSTRUCTION AND THE ATTITUDE OF THE UNITED STATES AND OTHER GOVERNMENTS RESPECTING FINANCIAL ASSISTANCE TO CHINA—Continued

Date and number	Subject	Page
1935 Nov. 5	*Memorandum by the Under Secretary of State* Telephone conversation with Mr. Morgenthau, who gave details of his conversation with the Chinese Ambassador regarding U. S. purchase of Chinese silver.	632
Nov. 5	*From the Economic Adviser to the Under Secretary of State* Observations regarding the Chinese currency program and possible effect on the U. S. Treasury.	633
Nov. 5 (57)	*From the Second Secretary of Embassy in China (tel.)* View of Chinese official that success of currency program depends on Japanese attitude toward it and upon cooperation of the Chinese people; reports on Japanese attitude, and on Chinese attempt to gain British cooperation.	635
Nov. 5	*From the Ambassador in China (tel.)* Information from Mackay, local manager of the National City Bank, regarding commitment of Hong Kong & Shanghai Bank to the Chinese plan.	636
Nov. 5 (290)	*To the Consul General at Shanghai (tel.)* For the Ambassador: Request for full information on developments; advice of inquiry from Chinese Embassy as to what steps the U. S. Government had in mind relative to the Chinese nationalization of silver.	637
Nov. 6	*Memorandum by the Under Secretary of State* Conference between the Chinese Ambassador and Secretary Morgenthau, who clarified the U. S. position on the purchase of Chinese silver, and on participation in a Chinese loan.	637
Nov. 6 (119)	*From the Counselor of Embassy in China (tel.)* Information indicating uncertainty of Japanese position regarding the new Chinese monetary measures; probable factors on which Japanese position will depend	639
Nov. 8 (123)	*From the Counselor of Embassy in China (tel.)* Unsettled conditions related to the new Chinese currency program.	639
Nov. 9 (68)	*From the Ambassador in China (tel.)* Dissatisfaction of both Japanese Foreign Office and military personnel with the Chinese currency measure.	640
Nov. 13 (17)	*To the Ambassador in China (tel.)* Agreement between the Treasury Department and the Chinese Ambassador regarding arrangements for purchase of Chinese silver.	641
Nov. 15 (78)	*From the Ambassador in China (tel.)* Discussion with Suma, of the Japanese Embassy, in regard to the Sino-Japanese situation, and opinion that the Japanese will not cooperate toward the success of the Chinese stabilization plans.	642
Nov. 15 (676)	*From the Consul General at Shanghai (tel.)* Attitudes of foreign banks toward surrendering silver to Chinese Government.	643

CHINA

PROBLEM OF CHINA'S ECONOMIC RECONSTRUCTION AND THE ATTITUDE OF THE UNITED STATES AND OTHER GOVERNMENTS RESPECTING FINANCIAL ASSISTANCE TO CHINA—Continued

Date and number	Subject	Page
1935		
Nov. 21 (168)	*From the Counselor of Embassy in China (tel.)* From Yunnanfu, November 20: Report that Yunnan is unaffected by nationalization of silver, since the Province has its own independent monetary system.	644
Nov. 22 (103)	*From the Counselor of Embassy in China (tel.)* Suma's report of evasive replies from Chiang Kai-shek with regard to the monetary scheme.	644
Nov. 22 (584)	*From the Ambassador in the United Kingdom (tel.)* For Treasury from Butterworth: Confidential information that the British Embassy in the United States has been instructed, at Leith-Ross' request, to explain to the American authorities something of Leith-Ross' activities in China, pointing out the desirability of American cooperation.	645
Nov. 25 (590)	*From the Ambassador in the United Kingdom (tel.)* For Morgenthau from Butterworth: British request for suggestions in regard to a desirable *per mensem* amount of silver to be marketed by Hong Kong.	647
Nov. 27	*Memorandum by Mr. Raymond C. Mackay of the Division of Far Eastern Affairs* Conversation with W. I. Myers, Governor of the Farm Credit Administration, regarding the postponement of payments due on the U. S. wheat credit of 1931 to China. (Footnote: Information of a similar conversation with an official of the Reconstruction Finance Corporation on December 2.)	647
Dec. 3 (727)	*From the Consul General at Shanghai (tel.)* For Hornbeck from Young: Hope for accession to Chinese request for a revision in the schedule of payments due to the Farm Credit Administration and the Reconstruction Finance Corporation.	650
Dec. 3	*From the Economic Adviser to the Secretary of State* Treasury Department's refusal to consider a Chinese request for modification of the silver purchase contract.	650
Dec. 14	*Memorandum by Mr. Raymond C. Mackay of the Division of Far Eastern Affairs* Review of loans to China, and suggestion that postponement of payments on the wheat and cotton credits of 1931 and 1933 would free sums of money which might be utilized to effect payments on the "Chicago Bank Loan".	651
Dec. 18 (770)	*From the Consul General at Shanghai (tel.)* Japanese consular police action against silver runners.	654
Dec. 19 (235)	*From the Ambassador in China (tel).* Implications that strong demand for foreign currencies is in anticipation of an early decline of the Chinese dollar and the possible severance of financial relations between North China and the rest of the country.	655

CHINA

PROBLEM OF CHINA'S ECONOMIC RECONSTRUCTION AND THE ATTITUDE OF THE UNITED STATES AND OTHER GOVERNMENTS RESPECTING FINANCIAL ASSISTANCE TO CHINA—Continued

Date and number	Subject	Page
1935 Dec. 19	*Memorandum by the Chief of the Division of Far Eastern Affairs of a Conversation With the Chinese Ambassador* Discussion relative to two documents handed to the Chinese Ambassador: (1) Oral statement (printed *infra*) regarding Chinese requests for alterations, favorable to the Chinese Government, in agreements governing wheat and cotton purchases in 1931 and 1933; (2) factual statement (printed on page 658) regarding the Chicago Bank Loan.	655
Undated	*Oral Statement by the Chief of the Division of Far Eastern Affairs to the Chinese Ambassador on December 19, 1935* Text of statement regarding postponement of payments on the wheat and cotton credits, and relation of this matter to outstanding Chinese obligations to American creditors.	656
Undated	*To the Chinese Embassy* Factual statement with regard to the Chicago Bank Loan, handed to the Chinese Ambassador on December 19.	658
Dec. 27	*Oral Statement by the Chinese Ambassador to the Chief of the Division of Far Eastern Affairs on December 27, 1935* Inadequacy of proposed schedules of loan payments; Finance Minister's desire to contact authorized representatives with a view to the settlement of the Chicago Loan as soon as possible.	658
Dec. 27	*Oral Statement by the Chief of the Division of Far Eastern Affairs to the Chinese Ambassador on December 27, 1935* Reply to the Chinese Ambassador's oral statement, calling attention to suggestions contained in the statements of December 19 relative to loan settlement.	659
Dec. 30 (800)	*From the Consul General at Shanghai (tel.)* For Hornbeck from Young: Plea for U. S. acceptance of reduced flood relief payment on December 31, pending completion of negotiations, which will afford a substantial and greatly needed current relief.	660
Dec. 31	*Memorandum by the Chief of the Division of Far Eastern Affairs* Résumé of conferences with the Chinese Ambassador relative to possible schedules for payment of obligations to American creditors; Department's agreement to collection by the Farm Credit Administration of full amount due from China on December 31, and negotiations later regarding balance due in the future.	660

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

1935 Jan. 9 (11)	*From the Chargé in China (tel.)* Telegram to Consul General at Hankow (text printed) requesting information relative to military activity in Szechwan area and suggesting, if situation warrants, that Americans in area be warned to withdraw while communication lines are open.	664

CHINA

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

Date and number	Subject	Page
1935 Jan. 12 (14)	*From the Chargé in China (tel.)* Telegram from Hankow (text printed) advising that warning has been given to Americans, describing the military situation, and giving opinion that Reds will not enter Kweichow soon; advice of counter opinion from other sources.	665
Jan. 16 (21)	*From the Chargé in China (tel.)* To Nanking, January 15: Memorandum to be delivered to the Foreign Office (text printed) requesting the National Government to take prompt measures for the full protection of American citizens and property in and around Szechwan.	666
Jan. 16 (22)	*From the Chargé in China (tel.)* From Hankow, January 15: Efforts to secure information, and to insure protection of Americans and safe conduct should departure become imperative; dispatch of warning letters to mission stations and institutions in Szechwan.	666
Jan. 17 (6)	*From the Counselor of Legation in China (tel.)* Delay in official Foreign Office report of apprehension of, confession by, and execution of the communist soldiers who murdered Mr. and Mrs. Stam in 1934.	667
Jan. 17 (26)	*From the Chargé in China (tel.)* To Nanking, January 17: Legation's skepticism in regard to truth of Foreign Office report concerning the murderers of the Stams, and instructions to be noncommittal.	667
Jan. 26 (37)	*From the Chargé in China (tel.)* Decision of Yangtze Rapids Steamship Co. to transport Chinese troops if requested; British Legation's announcement that it would raise no objection to troop carrying by British companies.	668
Jan. 29 (47)	*From the Chargé in China (tel.)* Formal request from the Foreign Minister that foreign diplomatic representatives instruct their shipping companies to permit the hiring of their vessels to transport troops to Szechwan; Legation's proposed reply, and information as to British position.	668
Jan. 29 (27)	*To the Chargé in China (tel.)* Concurrence in proposed reply to the Foreign Ministry.	669
Jan. 31 (3314)	*From the Chargé in China* Transmittal of memorandum from the Foreign Ministry indicating that conditions in Szechwan are peaceful and that heavy forces have been stationed along the Szechwan-Kweichow border to prevent entry of the Communists.	670
Feb. 5 (35)	*To the Chargé in China (tel.)* Request for summary of steps taken by the Chinese Government relative to the Stam murders, and opinion as to whether suitable action has been taken.	670
Feb. 6 (65)	*From the Chargé in China (tel.)* Account of Chinese efforts to apprehend the Stam murderers; Legation's instructions to Nanking to urge the Foreign Minister to reply to the Legation's representations.	671

CHINA

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

Date and number	Subject	Page
1935 Feb. 9 (69)	*From the Chargé in China (tel.)* Translation of one section (text printed) of note which was submitted by the Foreign Office relative to progress in the Stam case; comment regarding peculiar absence of public announcement by the Chinese Government of the events described in the report.	671
Feb. 13 (73)	*From the Chargé in China (tel.)* Summary of Foreign Office statements, and of the note partially translated in No. 69 of February 9; outline of proposed reply, requesting further investigation as to persons responsible for the murders and reasons for silence of the Chinese press.	672
Feb. 13	*From the Counselor of Legation in China to the Chargé in China* Conversation with Dr. Liu of the Foreign Office clarifying the U. S. position in the matter of troop transportation by American commercial vessels on the Yangtze.	675
Feb. 14 (43)	*To the Chargé in China (tel.)* Approval of proposed reply to Foreign Office note, as suggested in Legation's No. 73 of February 13.	676
Feb. 18 (81)	*From the Chargé in China (tel.)* From Nanking: Compliance with Legation's instructions to submit note to Foreign Office relative to the Stam murders.	677
Feb. 19 (82)	*From the Minister in China (tel.)* From Nanking, February 18: Foreign Office promise to release information relative to the apprehension and execution of the Stam murderers.	677
Feb. 20 (83)	*From the Minister in China (tel.)* From Hankow, February 19: Report of movements of Reds; warnings to Americans at stations in the path of the Reds.	678
Feb. 23 (87)	*From the Minister in China (tel.)* From Hankow: Increasing gravity of situation in South Shensi; request to Chairmen of Shensi and Kansu for protection and evacuation assistance to Americans if necessary.	678
Feb. 26 (96)	*From the Minister in China (tel.)* From Hankow: Information regarding Shensi and Kansu governments' agreement to afford protection to American residents, with no danger apparent yet.	679
Mar. 1 (3402)	*From the Minister in China* Despatch from Hankow indicating that no Chinese troops have been transported to Szechwan on American vessels, although one American vessel carried ammunition.	679
Mar. 4	*From the Consul General at Canton (tel.)* Report of communist advances; additional warnings to American missionaries.	680
Apr. 16	*From the Consul General at Shanghai (tel.)* Information from British Consul General that foreign women and children are being evacuated from Chengtu as a precautionary measure.	680
Apr. 17 (157)	*From the Minister in China (tel.)* From Hankow: Evacuation of American and British missionaries from Chengtu.	680

CHINA

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

Date and number	Subject	Page
1935 Apr. 18 (76)	*From the Second Secretary of Legation in China (tel.)* Information from French Legation regarding the French Consul's report of conditions in Chengtu, and his notification to French nationals to leave at their own discretion.	681
Undated (11)	*From the Consul General at Hankow (tel.)* Reported arrival of Chinese reeinforcements and improvement in military situation in Chengtu.	681
Apr. 25 (167)	*From the Minister in China (tel.)* From Yunnanfu, April 24: Request for instructions regarding procedure in case situation becomes dangerous for the Consulate. To Yunnanfu, April 25: Instructions as requested.	682
Apr. 26 (14)	*From the Consul General at Hankow (tel.)* Improvement in Chengtu situation due to arrival of reenforcements.	683
May 7 (186)	*From the Minister in China (tel.)* From Yunnanfu, May 6: Report that Reds are crossing the Yangtze north of Mou, and foreigners are returning to Yunnanfu.	683
May 9 (188)	*From the Minister in China (tel.)* From Hankow, May 8: Report of large band of Reds operating southeast of Yochow, and preparation for evacuation of American residents from that town.	683
May 10 (190)	*From the Minister in China (tel.)* From Hankow, May 7: Safe evacuation of all Americans from Yochow; evidence of united Red bands with object of concentration unknown.	684
May 10	*From the Consul at Swatow (tel.)* To the Legation: Disappearance of Father Henry J. Bush, American Catholic priest, of Maryknoll Mission, presumed to be in the hands of bandits.	684
May 28 (222)	*From the Minister in China (tel.)* Report from Yunnanfu of return of all Americans.	685
June 4 (138)	*From the Minister in China (tel.)* From Swatow, June 3: Summary of letter from Monsignor Ford, of Maryknoll Mission, requesting suspension of anti-bandit measures pending ransom release of Father Bush. To Swatow: Instructions to avoid becoming associated with matters relating to ransom, and to hold Chinese authorities primarily responsible for safe delivery of Bush.	685
June 6 (245)	*From the Minister in China (tel.)* From Yunnanfu, June 5: Capture of Luting and Tatsienlu by the Reds, but no information regarding American citizens at Tatsienlu.	686
June 9 (254)	*From the Minister in China (tel.)* From Yunnanfu, June 8: Advice that American residents of Tatsienlu are safe at Chungking.	686
June 12 (264)	*From the Minister in China (tel.)* From Hankow: Bandit activity on the Hupeh-Honan border; departure of missionaries from Tungpeh and Tenghsien.	687

CHINA

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

Date and number	Subject	Page
1935 June 16	*From the Consul at Swatow (tel.)* From Kaying: Rescue of Father Bush by military authorities.	687
June 21	*From the Consul at Canton (tel.)* Official delivery to Consulate General of Father Bush, who ascribed his release to the strenuous efforts of the three first group army divisions mobilized by Marshal Chen Chi Tang for Bush's rescue.	687
July 27 (381)	*From the Minister in China (tel.)* From Hankow, July 26: Telegraphic warnings to American mission stations in southern Kansu regarding northward movement of main communist bodies.	688
Aug. 29 (444)	*From the Minister in China (tel.)* From Hankow, August 28: (1) Preparations in Changteh against threatened attacks by Reds, and warnings to missionaries in vicinity; (2) information that British gunboat *Sandpiper* is en route to Changteh.	688
Oct. 1 (19)	*From the Counselor of Embassy in China (tel.)* Presence of Japanese gunboats and a cruiser at Swatow, which might be explained as connected with the rice tax, but persistent rumors indicate possible Japanese demands for a concession there.	689
Oct. 7 (51)	*From the Consul General at Hankow (tel.)* Penetration of Reds into eastern Kansu; efforts to secure protection for missionaries leaving Lanchow.	689
Oct. 10 (44)	*From the Ambassador in China (tel.)* Increased seriousness of Swatow situation resulting from Japanese threat to use marines to support her demands relative to rice imports, and concentration of Chinese troops to block threat.	690
Oct. 14 (55)	*From the Ambassador in China (tel.)* To the Commander in Chief, U. S. Asiatic Fleet: Request that an American naval vessel be sent to Swatow to expedite communications and evacuation of Americans in the event that the Japanese place landing forces ashore.	691
Oct. 14 (23)	*To the Ambassador in China (tel.)* Suggestion that the Embassy may wish to reenforce Hankow's warning to American citizens in Lanchow by communicating through the Consul General at Shanghai with the headquarters there of the American missions concerned.	691
Oct. 14 (58)	*From the Ambassador in China (tel.)* Departure of the U. S. S. *Asheville* for Swatow.	692
Oct. 15 (62)	*From the Ambassador in China (tel.)* From Swatow, October 12: Request that an American warship be sent despite Japanese Admiral's expectation of an early satisfactory settlement of the situation.	692
Oct. 17 (69)	*From the Counselor of Embassy in China (tel.)* Advice of reports from Consul at Canton and from the commanding officer of the U. S. S. *Asheville* that the Japanese vessels will withdraw, and that the incident at Swatow is closed.	693

CHINA

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

Date and number	Subject	Page
1935		
Oct. 26 (54)	*From the Consul General at Hankow (tel.)* Safe arrival of missionary party at Paotow.	693
Oct. 28 (99)	*From the Counselor of Embassy in China (tel.)* Safe arrival of missionaries from Lanchow; names of the 11 Americans included in the party.	693
Oct. 29 (101)	*From the Counselor of Embassy in China (tel.)* From the Ambassador, at Shanghai, October 28: Advice of request to Foreign Office for protection of Americans in Tatsienlu area.	694
Oct. 30 (107)	*From the Counselor of Embassy in China (tel.)* From Yunnanfu, October 29: Belief of Provincial Government that situation at well-garrisoned Tatsienlu is not serious.	694
Nov. 1 (110)	*From the Counselor of Embassy in China (tel.)* To Hankow: Receipt of advice that several mission stations in Kansu have been occupied by Chinese troops since departure of missionaries; instructions to request the Provincial Government to order the withdrawal of these troops.	694
Nov. 13 (57)	*From the Consul General at Hankow (tel.)* Report of communist advances, and heavy Government troop movements toward Chengtu; efforts to secure information regarding missionaries en route to Kiating by raft.	695
Nov. 14 (58)	*From the Consul General at Hankow (tel.)* Safe arrival of Yachow missionaries in Kiating; dispatch of a telegram to Tatsienlu, but no reply as yet.	696
Nov. 14 (59)	*From the Consul General at Hankow (tel.)* Report from Adventist Mission in Tatsienlu that the situation is serious and that the east and south roads are blocked.	696
Nov. 20 (97)	*From the Ambassador in China* Transmittal of despatch from Consulate at Swatow indicating that potentialities for future trouble still exist there.	696
Nov. 27 (112)	*From the Counselor of Embassy in China (tel.)* Information regarding assurance from the Foreign Office that local authorities have been instructed to give protection to American citizens in troubled areas.	697
Nov. 30 (62)	*From the Consul General at Hankow (tel.)* Activities of divided forces of communist bandits; report from Catholic mission in Chihkiang of Red approach and impossibility of evacuation.	697
Dec. 2 (63)	*From the Consul General at Hankow (tel.)* Information regarding three-pronged drive of Communists, concentration of numerous missionaries in Changsha, and presence of the Standard-Vacuum Oil Co. steamer *Meishan*, being held there pending developments.	698
Dec. 4 (65)	*From the Consul General at Hankow (tel.)* Uncertainty with regard to Red destination; less nervousness in Changsha.	699

CHINA

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

Date and number	Subject	Page
1935 Dec. 9 (68)	*From the Consul General at Hankow (tel.)* Continuing uncertainty with regard to Red destination. Advice that U. S. naval authorities are holding the *Monocacy* at Hankow in readiness for quick departure for Changsha if necessary.	699
Dec. 31 (250)	*From the Ambassador in China (tel.)* From Hankow, December 30: Fighting in the Hungkiang and Kienyang areas; tense situation in Chihkiang but safety of missionaries assured by authorities.	700
1936 Jan. 7 (5)	*From the Ambassador in China (tel.)* From Hankow, January 6: Report of safety of Catholic missionaries at Chihkiang, with Reds moving into Kweichow.	700
	RETENTION OF UNITED STATES ARMY FORCES IN CHINA	
1935 June 18 (170)	*To the Minister in China (tel.)* Advice that the Department in reply to press inquiries stated that there had been no consideration in regard to removal of American troops from Peiping and Tientsin.	700
Sept. 6 (273)	*To the Minister in China (tel.)* Reference to a United Press report from Tientsin regarding withdrawal of U. S. troops from China; reaffirmation that the United States does not contemplate such withdrawal.	701
Nov. 19	*From the Acting Secretary of War* Renewal of recommendation made in 1931 for the withdrawal of the American garrison from Tientsin, since it would constitute a potential source of complications in the event a pseudo-autonomous government should be set up in North China.	701
Nov. 20	*To the Acting Secretary of War* Intention to confer with War Department at an early date regarding the matter discussed in the communication of November 19.	702
	DENIAL BY THE UNITED STATES OF RESPONSIBILITY FOR ALLEGED KILLING OF A CHINESE BY AMERICAN NAVAL ENLISTED MEN IN CHINA	
1933 Aug. 16 (344)	*From the Consul General at Hankow to the Minister in China* Detailed account of developments in regard to the alleged killing of a Chinese by American Naval enlisted men in China.	702
[Sept. 13]	*From the Chinese Acting Minister for Foreign Affairs to the American Minister in China* Communication from Hupeh Provincial Government (text printed) protesting that the American naval authorities have not cooperated in investigating the drowning of Chao Ch'ing-yün; request for U. S. action to effect a settlement of the case.	704

CHINA

DENIAL BY THE UNITED STATES OF RESPONSIBILITY FOR ALLEGED KILLING OF A CHINESE BY AMERICAN NAVAL ENLISTED MEN IN CHINA—Continued

Date and number	Subject	Page
1934 Oct. 26 (824)	*From the American Chargé in China to the Chinese Acting Minister for Foreign Affairs* Résumé of Navy Department's findings with reference to the death of Chao Ch'ing-yün allegedly at the hands of crew members of the U. S. S. *Guam;* conclusion that the evidence submitted fails to establish responsibility of any members of the U. S. S. *Guam* for the alleged act.	706
1935 July 11 (925)	*From the American Minister in China to the Chinese Acting Minister for Foreign Affairs* Reiteration of opinion that evidence submitted fails to establish responsibility of any members of the crew of the U. S. S. *Guam* for the death of Chao Ch'ing-yün.	710
	(NOTE: Later report of deadlock, and Department's decision in 1937 that it could admit no liability whatsoever in the matter.)	710

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

1935 Jan. 10	*To the British Ambassador* Expression of hope that the British Government will give consideration to the possibility of modifying the procedure now in effect in Hong Kong with respect to the transshipment of arms to China.	711
Jan. 14	*Memorandum by Mr. Joseph C. Green of the Division of Western European Affairs of a Conversation With the First Secretary of the British Embassy* Acknowledgment by the British official that the Hong Kong regulations in respect to transshipment of arms need to be stiffened.	713
Jan. 23 (3291)	*From the Chargé in China* Discussion of pertinent factors and circumstances in connection with contention of a representative of the Boeing Aircraft Co. that American sellers of military planes are being placed in a disadvantageous position compared with those of other nationalities because of U. S. Government regulations. (Footnote: Information regarding clearance in August 1935 of 10 Boeing planes, requested in 1934, to be delivered to Cantonese forces.)	714
Feb. 15	*Memorandum by Mr. Raymond C. Mackay of the Division of Far Eastern Affairs* Assurance to Chinese Minister that export licenses for 20 Boeing bombers, reported as desired by Canton, will not be given without Chinese Government's consent.	716
Feb. 27 (98)	*From the Minister in China (tel.)* Chinese Government's announcement of new regulations governing importation of airplane materials, specifying documents, taxes, and fees to be submitted through appropriate diplomatic channels.	717

CHINA

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

Date and number	Subject	Page
1935		
Mar. 12 (75)	*To the Minister in China (tel.)* Department's concern lest compliance with new regulations, without reservation, might indicate assent to imposition of tax on American citizens; instructions to consult with other Legations and submit recommendations.	718
Mar. 27 (76)	*From the British Ambassador* Advice that careful consideration has been given to U. S. note of January 10, in consultation with the Governor of Hong Kong; that the latter has suggested that requirement of a Central Government "huchao" for re-export to China would deal effectively with the matter of transshipment of arms to China.	718
Mar. 29 (3480)	*From the Minister in China* Opinion that reservations regarding the new regulations governing the importation of airplane equipment would be unnecessary and undesirable; advice that British Legation does not contemplate making any reservations.	719
Apr. 8 (89)	*From the British Ambassador* Résumé of the generally favorable attitude of various countries toward the British position (set forth in 1934) in respect to regulations governing export of arms to China; intention to make further approaches to Belgium and Switzerland to secure their support, and request for U. S. cooperation.	719
Apr. 15	*To the British Ambassador* Advice of instructions to U. S. representatives in Berne and Brussels to cooperate with their British colleagues as requested in No. 89 of April 8.	721
Apr. 19	*To the British Ambassador* Request for further information with regard to procedure suggested in British note No. 76 of March 27; opinion that such procedure should apply equally to other powers concerned.	721
Apr. 30 (3863)	*From the Minister in Switzerland* Discussion with the British Minister relative to Swiss delay in passing a law governing arms exports to China in compliance with Chinese regulations.	722
May 3	*To the Consul at Hong Kong (tel.)* Instructions to try to ascertain ultimate destination and other pertinent information relative to certain orders for which Smith and Wesson have requested an export license.	723
May 4 (3871)	*From the Minister in Switzerland* Advice from the Federal Political Department that methods of control of export of arms are under study, and that there is no indication that arms are being manufactured in Switzerland for contraband shipment to China.	724
May 7 (96)	*From the Minister in China (tel.)* Request for instructions relative to representations to the Foreign Office desired by a Boeing representative in connection with an export permit for armed airplanes.	725

CHINA

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

Date and number	Subject	Page
1935		
May 9 (32)	*To the Minister in China (tel.)* Indication that Legation is not in a position to interpose in a situation where the initiative and responsibility lie with the Chinese Government and the interested American firm.	725
May 14	*To the Secretary of Commerce* Explanation, in reply to an inquiry, of efforts to secure uniformity of procedure among all the governments concerned in the shipment of aircraft, aircraft parts, and accessories to China.	725
May 15	*From the Consul at Hong Kong (tel.)* Information requested in Department's telegram of May 3, indicating legitimacy of the shipment referred to.	727
May 21	*Memorandum by the Assistant Chief of the Division of Far Eastern Affairs* Discussion among several Department officers of the question of licensing of exports of small arms and ammunition to Hong Kong, and conclusion that, pending further communication from the British Government, the Department should approve applications except when particular circumstances warrant withholding of a license.	728
May 29 (475)	*From the Chargé in Belgium* Assurance from the Foreign Office that Belgian producers do not export arms to China without a license from the Chinese Government.	729
June 12	*Memorandum by Mr. Joseph C. Green of the Division of Western European Affairs* British Embassy's report that no reply has been received as yet from London to U. S. inquiry of April 19 concerning the situation in Hong Kong with respect to transshipment and re-export of arms.	730
June 20 (3633)	*From the Minister in China* Information regarding a recently established airplane factory at Shiuchow, Kwantung, indicating a substantial market for American aviation materials, and possible desirability of revision of present U. S. attitude toward export regulations on aviation materials.	730
July 1 (179)	*From the British Ambassador* Information in answer to U. S. request of April 19, and inquiry as to whether the United States, in the light of this information, would be prepared to accept the procedure set forth in No. 76 of March 27.	731
July 22	*To the British Ambassador* Provisional adherence to British suggested procedure, and request for information pertaining to transshipments from Hong Kong to Macao.	732
Aug. 1	*To the British Ambassador* Suggestion that discussion be initiated toward reaching an agreement obviating the difficulties arising from differences in the British and American interpretations as to what constitutes military aircraft.	733

CHINA

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

Date and number	Subject	Page
1935 Aug. 27 (69)	*To the Second Secretary of Legation in China (tel.)* Instructions to refer the Chinese Military Administration directly to the Stinson Aircraft Corporation or, as an alternative, to the Chinese Embassy in Washington in regard to its desire to purchase airplanes for aerial survey.	734
Aug. 31	*To the British Chargé* Receipt of information regarding a Czechoslovakian shipment of arms and munitions to Canton, presumably not covered by a *huchao* from the Chinese Central Government.	735
Sept. 4 (193)	*From the Consul General at Hong Kong* Information from Hong Kong police of initiation of a new system relative to arms and ammunition, placing the burden of establishing legitimacy of shipments on authorities in the country of origin.	736
Sept. 19 (265)	*From the British Chargé* Reply to Department's note of July 22, advising that (1) the new licensing procedure will go into effect October 1, and will apply to transshipments to Macao as well as to China; (2) British Government is prepared to submit informally to the U. S. Embassy in London the figures received bi-annually from Hong Kong covering shipments of arms from Belgium and Switzerland.	737
Sept. 28	*To the British Chargé* Acknowledgment of note of September 19, with favorable comment on contents thereof.	737
Nov. 6 (4117)	*From the Minister in Switzerland* Information from the British Minister concerning the Swiss position with regard to an embargo on export of arms to China.	738

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

1934 Dec. 7 (3178)	*From the Chargé in China* Apparent satisfaction of Chinese officials in the conduct of the recent search by the ship's officers of the U. S. S. *Tutuila* for smuggled morphine.	739
1935 July 24 (3708)	*From the Minister in China* Note from the Foreign Ministry requesting cooperation of American authorities in carrying out the provisions of the League of Nations resolution for control of traffic in and manufacture of narcotic drugs by foreigners in China; request for instructions for an appropriate reply.	739
July 26 (3710)	*From the Minister in China* Foreign Office request that Legation issue instructions to American warships to pay serious attention to the matter of smuggling to avoid being refused permission to return to China.	741
Undated [Rec'd July 27]	*Report by the American Representative at the Twentieth Session of the Opium Advisory Committee of the League of Nations* Statement (text printed) made during the discussion of the proposed survey of cooperation.	742

CHINA

PROBLEM OF CONTROLLING THE TRAFFIC IN OPIUM AND NARCOTIC DRUGS IN CHINA, INCLUDING MANCHURIA AND JEHOL—Con.

Date and number	Subject	Page
1935 Aug. 1 (230)	*To the Minister in China (tel.)* Request for date when new system of narcotic drug import certificates will become effective; instructions to inform consular offices of the documentation necessary under that system.	744
Aug. 9 (409)	*From the Minister in China (tel.)* Information that the new system became effective on June 4.	744
Oct. 21	*To the Secretary General of the League of Nations* Detailed commentary on two resolutions (texts printed) adopted by the League Opium Advisory Committee relative to manufacture of and illicit traffic in narcotic drugs in China, with citations to U. S. legislation applicable to American citizens in China.	744
Oct. 21 (20)	*To the Ambassador in China* Instructions for reply to the Foreign Ministry's note described in despatch No. 3708 of July 24.	751
Dec. 5 (69)	*To the Ambassador in China (tel.)* Instructions to inform Chinese Government that no certificate for export of narcotic drugs to China will be issued except against import permit issued by the Chinese Public Health Administration.	753

EFFORTS FOR THE CONSIDERATION OF AMERICAN CLAIMS OUTSTANDING AGAINST CHINA

1935 Apr. 1 (3484)	*From the Minister in China* Résumé of several conversations relative to the proposed Sino-American claims commission and to claims of British subjects against the Chinese Government.	753
Apr. 8	*From the American Minister in China to the Chinese Acting Minister for Foreign Affairs* Additional list of claims of American creditors against the Chinese Government, and request for opinion as to progress made toward establishment of a Sino-American claims commission.	754
Apr. 22 (1636)	*To the Minister in China* Confirmation of Department's earlier position, following study of Standard Oil Company's brief, that the title to goods in the hands of Chinese agents remained in the company.	755
May 22	*Memorandum by the Minister in China* Résumé of conversation with the Vice Minister for Foreign Affairs regarding investigation and settlement of American claims listed with the Chinese Government.	755
June 13 (916)	*From the American Minister in China to the Chinese Acting Minister for Foreign Affairs* Request that the Minister of Railways be approached with respect to fulfillment of obligations to the American creditors of the Peiping-Hankow Railway.	757

CHINA

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

Date and number	Subject	Page
1935		
June 29 (192)	*To the Minister in China (tel.)* Instructions to submit from time to time comprehensive analyses, together with views and comments, in regard to various Sino-Japanese economic settlements and agreements insofar as they may indicate preferential treatment.	758
July 12 (205)	*To the Minister in China (tel.)* Opinion that American claimants, with the active assistance of the Legation, should endeavor at this time to effect satisfactory settlement of their outstanding accounts with the Chinese Government.	759
July 19 (369)	*From the Minister in China (tel.)* Request for clarification of Department's instruction No. 205 of July 12.	759
July 26	*From the Chinese Acting Minister for Foreign Affairs to the American Minister in China* Reply to Minister's No. 916, of June 13, including a statement by the Ministry of Railroads (text printed) claiming that obligations to American firms are being fulfilled.	760
July 26 (1721)	*To the Minister in China* Request for information in regard to various Chinese statements made regarding defaults in service of the Hukuang Railway Loan of 1911, particularly with reference to Chiang Kai-shek's alleged proposal that a foreign executive committee be appointed to run the railroads in China.	761
July 29 (226)	*To the Minister in China (tel.)* Instructions to continue to urge strongly the creation of a Sino-American claims commission, and at the same time endeavor to effect settlement of individual American claims.	762
Aug. 31 (448)	*From the Minister in China (tel.)* Request for authorization to sign a joint memorandum, suggested by the British Embassy, urging the Chinese Government to provide for the servicing of the Hukuang Railway Loan. (Footnote: Authorization granted on September 11.)	763
Sept. 13 (3788)	*From the Minister in China* Opinion that a recent Chinese railway survey by a British railway expert was not related to Chiang Kai-shek's proposed plan to create a foreign executive committee to run the railroads of China.	764
Nov. 11	*From the Chinese Ministry for Foreign Affairs to the American Embassy in China* Reply to joint memorandum referred to in Minister's No. 448, August 31, stating inability of the Ministries of Railway and Finance to pay additional instalments of interest on the Hukuang Railway Loan at the present time.	765
Dec. 16	*From the American Embassy in China to the Chinese Ministry for Foreign Affairs* Request that the Foreign Office bring to the attention of the Ministry of Railways the apparent discrimination against an American creditor of the Tientsin–Pukow Railway. (Footnote: Settlement of creditor's claim, March 31, 1936.)	766

CHINA

REPRESENTATIONS BY THE UNITED STATES AGAINST THE ESTABLISHMENT OF MONOPOLIES IN CHINA

Date and number	Subject	Page
1934		
Dec. 12 (842)	*From the American Chargé in China to the Chinese Acting Minister for Foreign Affairs* Protest against reported monopoly arrangements of the Hunan Provincial Government for the control and export of antimony.	767
1935		
Jan. 21 (14)	*To the Minister in China (tel.)* Request for report on existing situation in regard to Hunan antimony monopoly.	768
Jan. 22 (7)	*From the Counselor of Legation in China (tel.)* Receipt of unofficial but apparently reliable report that the Chinese Government has almost completed a scheme for Government sugar monopoly, to be announced soon.	769
Jan. 22 (31)	*From the Chargé in China (tel.)* Information that a German firm in Hankow was approached by the Hunan Antimony Syndicate with a proposition for the financing of antimony sales; increase in price of antimony due to the operations of the syndicate.	769
Jan. 25 (24)	*To the Chargé in China (tel.)* Possible desirability of putting on record with Chinese authorities the fact that monopoly projects, if put into effect, would contravene existing treaty provisions; instructions to ascertain informally views of colleagues.	770
Jan. 28 (17)	*From the Counselor of Legation in China (tel.)* Reported abandonment by the Government of idea of sugar monopoly and of intention to double the import duty on leaf tobacco; rumored match monopoly.	770
Feb. 1 (56)	*From the Chargé in China (tel.)* Foreign Office contention that antimony syndicate is comparable to syndicates of productive enterprises in other countries, and does not contravene treaties; intention to draft another protest against the antimony monopoly.	771
Feb. 6 (37)	*To the Chargé in China (tel.)* Department's disagreement with Foreign Office contention, and approval of further protest. Inquiry as to any action by the Japanese Legation.	771
Feb. 15 (75)	*From the Counselor of Legation in China* British, Japanese, and Swedish positions concerning Chinese monopolies and the matter of registering protests.	772
Feb. 21 (46)	*To the Counselor of Legation in China (tel.)* Instructions to continue in endeavors to ascertain views of various colleagues.	773
Feb. 25 (39)	*From the Minister in China (tel.)* Receipt of Chinese inquiry as to U. S. attitude toward a proposal made by the Benedum Trees Co. of Pittsburgh, Pa., which would appear to set up a state monopoly for the refining of oil and sale of oil products within China.	773
Mar. 1 (59)	*To the Minister in China (tel.)* Opinion that the proposal described in No. 39 of February 25 would contravene article 3 of the Nine Power Treaty and that the U. S. Government would be forced to disapprove it.	774

CHINA

REPRESENTATIONS BY THE UNITED STATES AGAINST THE ESTABLISHMENT OF MONOPOLIES IN CHINA—Continued

Date and number	Subject	Page
1935 Mar. 19 (3441)	*From the Minister in China* Information regarding the present inactivity of the Hunan Antimony Syndicate.	775
Apr. 4 (3487)	*From the Minister in China* Information and background on the continuation of certain restrictions upon transport and sale of kerosene in Kiangsi Province, virtually a form of monopoly; résumé of inquiries and informal representations made to the Chinese authorities.	775
Apr. 12 (3503)	*From the Minister in China* Foreign Office note maintaining previous position that the Hunan Antimony Syndicate does not contravene relevant treaty provisions. Views of the British and Japanese Legations on the general subject of monopolies in China.	778
Apr. 16	*Memorandum by the Chief of the Division of Far Eastern Affairs* Conversation with representatives of the Benedum Trees Co. in regard to the question of U. S. sanction of proposed oil concessionary rights in China.	779
Apr. 19 (3517)	*From the Minister in China* Information from Hankow indicating abatement of the restrictions and hindrances upon trade in Kiangsi Province.	781
May 24 (138)	*To the Minister in China (tel.)* Request for views and recommendations as to possible future action in regard to the Hunan Antimony Syndicate.	782
June 15 (3619)	*From the Minister in China* Analysis of general situation with regard to monopolies in China, with views and recommendations as requested in Department's No. 138 of May 24.	782
June 15 (3626)	*From the Minister in China* Press report of a proposed reorganization of the production and sale of tungsten in Kiangsi; Legation's plan to take action along lines similar to those followed in the case of the Hunan Antimony Syndicate.	785
June 20 (3637)	*From the Minister in China* Information from Hankow relative to proposed establishment of a tungsten monopoly in Kiangsi; intention to await a definite expression of the Central Government's policy before making official representations.	785
Sept. 4 (1745)	*To the Minister in China* Approval of plan to postpone representations regarding the tungsten monopoly pending clarification of the situation; observations and suggestions relative to further consideration of the Hunan Antimony Syndicate situation.	786
Oct. 25 (55)	*From the Ambassador in China* Unsuccessful efforts thus far of the Hunan Antimony Syndicate to obtain the support of American financial interests; evidence of a strengthened financial position, however, due to prevailing market conditions.	788

CHINA

REPRESENTATIONS BY THE UNITED STATES AGAINST THE ESTABLISHMENT OF MONOPOLIES IN CHINA—Continued

Date and number	Subject	Page
1935 Nov. 30 (111)	*From the Ambassador in China* Report from the Hankow Consulate General indicating that the Kiangsi Tungsten Mining Bureau has taken no action yet which constitutes monopolistic interference in normal commercial relations.	789

RESERVATION OF AMERICAN RIGHTS UNDER THE TREATIES AND THE CUSTOMS RULES OF 1868 WITH RESPECT TO ENFORCEMENT BY CHINA OF CUSTOMS PREVENTIVE REGULATIONS

1935 Jan. 23 (33)	*From the Chargé in China (tel.)* Opinion that the new customs preventive regulations are evident efforts of the Chinese Government to abrogate the rules of 1868 by unilateral action; intention of British and French Ministers to make formal reservations of rights, and request for authorization to take similar action. (Footnote: Authorization granted January 24; note addressed to the Foreign Office by the Chargé on February 4.)	790
Mar. 8 (3417)	*From the Minister in China* Foreign Office note reiterating Chinese position, and Legation's counter-reply affirming U. S. reservation of rights. Information, in connection with question of enforcement of the new regulations, concerning an agreement between the Municipal Council and the Maritime Customs authorities at Shanghai.	791
Sept. 7 (3779)	*From the Minister in China* Detailed account of recent difficulties between the Dollar Steamship Co. and the Chinese Maritime Customs at Shanghai. (Footnote: Mutually satisfactory settlement of difficulties, reported on October 2.)	792

ATTITUDE OF THE AMERICAN LEGATION WITH RESPECT TO THE POSITION OF AMERICANS IN THE CHINESE MARITIME CUSTOMS SERVICE

1935 Mar. 25 (1612)	*To the Minister in China* Request for views concerning the position of Americans in the Chinese Maritime Customs Service.	795
June 7 (3604)	*From the Minister in China* Opinion that at present any substantial change in the non-interference policy of the Department would be inopportune.	796

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

1935 Mar. 7 (3421)	*From the Minister in China* Developments relative to the efforts of the Chinese Government to establish a new pilotage authority.	797
Apr. 12 (3505)	*From the Minister in China* Report on further developments, including arrangement for vacancies to be filled in accordance with the established practice until the regulations have been modified by mutual agreement.	799

CHINA

Interest of the United States in the Question of Chinese Disinclination To Grant Foreign Requests To Establish Civil Aviation or To Attain Landing Rights in China

Date and number	Subject	Page
1935 Apr. 29 (85)	*From the Second Secretary of Legation in China (tel.)* Information that Chinese Government will not for the present grant landing rights to any foreign aviation concerns because of fear that concessions to western airline companies would make it impossible to refuse similar requests from the Japanese.	800
July 9 (58)	*To the Second Secretary of Legation in China at Nanking (tel.)* Refutation by Chinese Consulate General at New York of press item that a secret clause of the Tangku Truce granted Japan the right to establish civil aviation in China; instructions to report aviation developments in China with particular reference to possible effects on American business.	801
July 12 (206)	*From the Second Secretary of Legation in China (tel.)* Opinion regarding the rumored secret clauses in the Tangku Truce; Chinese postponement, for fear of Japanese objections, of a project to establish, with Italian assistance, an airplane factory at Nanchang.	801

Re-registration of Title Deeds to Real Property of Americans in China

1935 Jan. 18 (3282)	*From the Chargé in China* Discussion of the question of applicability to American nationals of the land rent tax at Nanking.	802
Jan. 31 (3318)	*From the Chargé in China* Authorization to the Consul General at Hankow to advise American property holders to comply voluntarily with the present procedure for re-registration, if assurances are received that no Chinese penalties will be imposed for the delay in registration.	804
Feb. 6 (3340)	*From the Chargé in China* Advice that the Consul General at Nanking has been instructed to file protest with the Municipal Government and reserve treaty rights for the American missions concerned, in case the new and revised land certificates should contain any restrictions inimical to existing property rights.	804
Feb. 6 (L. No. 35)	*From the Consul General at Hankow to the Chargé in China* Conversation with the Mayor of Hankow, who indicated willingness, upon receipt of a written request, to waive penalties for delay of American landholders who voluntarily apply for re-registration of their property.	805
Feb. 20 (3379)	*From the Minister in China* Report from Consul General at Hankow regarding assurances received from the Mayor, and requesting approval of proposed communication to American landholders.	806
Mar. 19	*From the American Consul at Tsinan to the Mayor of Tsinan* Objections to request that the Shantung Mission of Seventh Day Adventists surrender land title deed.	806
Apr. 3	*From the Mayor of Tsinan to the American Consul at Tsinan* Reiteration of position that the Seventh Day Adventists should promptly submit their deed for examination.	807

CHINA

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

Date and number	Subject	Page
1935 Apr. 18	*From the Minister in China to the Consul General at Canton* Advice that Legation perceives no objection to American property holders voluntarily registering title deeds, provided no restrictions are placed on certain property rights; request for copy of new deed form with comments thereon.	809
May 10 (3557)	*From the Minister in China* Detailed summary of unsatisfactory elements of the new lease agreement which the Nanking Municipality proposes to issue to foreign holders of perpetual leases; request for instructions.	809
May 20	*From the American Consul General at Canton to the Mayor of Canton* Request for official assurances, relative to leases and deeds, that treaty rights of American citizens will not be restricted.	811
June 12 (3614)	*From the Minister in China* Receipt of information that the Mayor of Tsinan has decided to drop matter of the Seventh Day Adventist deed for the time being.	813
July 3 (334)	*From the Minister in China (tel.)* Request for authorization to instruct Canton that Americans may voluntarily accept temporary arrangement for stamping deeds. (Footnote: Authorization granted July 6.)	814
Aug. 16 (3750)	*From the Minister in China* Transmittal of despatch from Canton enclosing satisfactory reply from the Mayor to the Consul General's letter of May 20.	814

ATTITUDE OF THE UNITED STATES WITH REGARD TO EXPROPRIATION OF LAND AND REGISTRATION OF AMERICAN EDUCATIONAL INSTITUTIONS WITH THE CHINESE AUTHORITIES

1935 Apr. 11	*From the Minister in China to the Second Secretary of Legation in China, at Nanking* Views concerning questions raised in a recent despatch from the Nanking office relative to expropriation of land and registration of American educational institutions with the Chinese authorities.	815
June 12 (1680)	*To the Minister in China* Approval of Legation's instruction to Nanking of April 11.	816

OBJECTION BY CHINA TO EDITORIAL COMMENTS ON CHINESE LEADERS BY "TIME" MAGAZINE

1935 June 6	*Memorandum by the Assistant Chief of the Division of Far Eastern Affairs* Conversation with the Chinese Minister, who objected to derogatory references by *Time* to Chinese leaders, and asked that they be stopped; explanation that Department has no legal authority to prevent publication of such comments, and expression of further views relative to the matter.	817

CHINA

OBJECTION BY CHINA TO EDITORIAL COMMENTS ON CHINESE LEADERS BY "TIME" MAGAZINE—Continued

Date and number	Subject	Page
1935 June 13	*Memorandum by the Assistant to the Legal Adviser to the Assistant Chief of the Division of Far Eastern Affairs* Concurrence in views expressed in memorandum of June 6.	819
	(Note: Information of expression of similar views in reply to later Chinese representations.)	819

JAPAN

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

1934 Dec. 27 (1102)	*From the Ambassador in Japan* Detailed summary of the situation in the Far East, stressing the importance of American naval preparedness.	821
1935 Jan. 3	*Memorandum by the Chief of the Division of Far Eastern Affairs* Belief that in the field of foreign relations the most important problem confronting the United States is that of relations with Japan; detailed résumé regarding courses of action in coping with the Far Eastern situation in general.	829
Jan. 11 (7)	*From the Ambassador in Japan (tel.)* Receipt of information concerning a projected American economic mission to the Orient; recommendation that the mission so frame its plans and announcements as to avoid unnecessary provocation of anti-American sentiment and irritation in Japan.	838
Jan. 12 (6)	*To the Ambassador in Japan (tel.)* Details regarding the projected economic mission sponsored by the National Foreign Trade Council, and instructions for replying to any inquiries.	839
Jan. 15	*Memorandum by the Secretary of State* Account of conversation with Shigeru Yoshida, the Japanese "traveling" Ambassador, including the Secretary's comments relative to the need everywhere for clearing the atmosphere of pointless talk and promoting desirable international policies.	840
Jan. 17 (7)	*To the Ambassador in Japan (tel.)* Further information regarding the economic mission which is to visit China, Japan, and the Philippines.	841
Jan. 21	*To the Ambassador in Japan* Appreciation for the valuable summary of the Far Eastern situation in despatch No. 1102 of December 27, 1934, which has been called to the attention of the President, and will be used discreetly in discussions with administration leaders.	842
Jan. 22	*To President Roosevelt* Transmittal of Ambassador Grew's despatch No. 1102 of December 27, 1934, and the memorandum of January 3, 1935, by the Chief of the Division of Far Eastern Affairs; indication of desire to discuss ways and means for bringing these matters to the attention of certain members of Congress.	842

JAPAN

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

Date and number	Subject	Page
1935		
Feb. 6 (1156)	*From the Ambassador in Japan* Detailed analysis of the situation in Japan, visualizing the outlook as the Japanese see it, with emphasis on economic and social factors.	843
Feb. 27 (1188)	*From the Ambassador in Japan* Conversation with Shigeru Yoshida, who indicated concurrence with the Secretary's views expressed in interview in Washington January 15, his impression of general American distrust of Japan, and his plan to explain to the people of Japan the American point of view.	853
Mar. 13	*To President Roosevelt* Transmittal of a copy of Ambassador Grew's despatch No. 1156 of February 6, together with a digest thereof.	854
Mar. 27	*Memorandum by the Chief of the Division of Far Eastern Affairs* Analytical commentary relative to information from Tokyo that younger Japanese naval officers speak freely of eventual U. S.-Japanese war resulting from conflict over policies in China, with conclusion that the best chance for peace with Japan lies in U. S. defensive military strength.	855
May 31 (1332)	*From the Ambassador in Japan* Information relative to two new advisory bodies of the Japanese Government, both subsidiary to the Cabinet, designated as the Cabinet Deliberative Body and Cabinet Investigation Bureau. (Footnote: Abolition of the Cabinet Deliberative Body reported by the Ambassador, May 11, 1936.)	858
June 27 (1373)	*From the Ambassador in Japan* Receipt of intimations that the real attitude of the Japanese naval authority is not sympathetic toward an early Naval Disarmament Conference; re-emphasis of opinions expressed in despatch No. 1102 of December 27, 1934, with reference to the importance of American naval preparedness.	862
Aug. 5	*Memorandum by the Secretary of State* Conversation with the Japanese Ambassador, who registered a complaint in behalf of his Government relative to two caricatures of the Emperor of Japan appearing in the August 1935 issue of *Vanity Fair*.	863
Aug. 6 (234)	*To the Minister in China (tel.)* Issuance of press statement (text printed) referring to denial by the *Vanity Fair* publishers of any intent to give offense to Japan, and expressing regret for any incident causing misunderstanding between this and another country; also, advice that any reports affirming an apology as coming from the Secretary are contrary to fact.	865
Aug. 7 (164)	*From the Chargé in Japan (tel.)* Information in regard to Japanese press treatment of the *Vanity Fair* matter, and observation that objection to the caricatures seems to have originated with the press.	866

JAPAN

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

Date and number	Subject	Page
1935		
Aug. 8 (406)	*From the Minister in China (tel.)* From Shanghai, August 7: Personal and informal request from the Japanese Vice Consul for suggestions in regard to preventing the circulation in China of the August number of *Vanity Fair;* reply indicating necessity for protecting American interests.	867
Aug. 9 (408)	*From the Minister in China (tel.)* From Shanghai, August 8: Japanese Vice Consul's suggestion that the police be requested to suppress delivered copies of *Vanity Fair* and prevent further sale; reply that this action would be counter to American interests.	867
Aug. 10	*Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs of a Conversation With the Counselor of the Japanese Embassy* Information given by the Counselor concerning an unfortunate street demonstration in Seattle, regarded as disrespectful to the Japanese Emperor; Dooman's suggestion that Embassy's statement to the press, if any, stress hope for a local settlement.	867
Aug. 10 (1429)	*From the Chargé in Japan* Japanese Government's pronouncement, August 3 (text printed), regarding the Emperor's position in the Japanese political system, released as result of the subversive political ideas of such constitutional commentators as Dr. Minobe.	869
Aug. 13 (167)	*From the Chargé in Japan (tel.)* Cessation of newspaper comments regarding the Seattle incident, following report concerning the desirability of a local settlement.	871
Aug. 14	*Memorandum by the Under Secretary of State* Conversation with the Japanese Ambassador relative to his Government's feelings in regard to the Seattle incident; reiteration of U. S. Government's regret for all such incidents.	871
Oct. 19 (1518)	*From the Chargé in Japan* Developments in the controversy centering around the constitutional views of Dr. Minobe, resulting in the issuance of a second statement, October 15 (text printed), setting forth the position of the Emperor in the Japanese political system.	872
Dec. 24 (1612)	*From the Ambassador in Japan* Summary of the year's developments in the nationalistic and expansionist urge in present-day Japan.	874
Dec. 28 (254)	*From the Ambassador in Japan (tel.)* Resignation of Count Makino, Lord Keeper of the Privy Seal, due to ill health; appointment of Viscount Saito, formerly Prime Minister, indicating unlikelihood of new influences affecting the throne in the near future.	876

JAPAN

REPRESENTATIONS ON ESTABLISHMENT OF OIL MONOPOLIES IN JAPAN AND MANCHURIA

Date and number	Subject	Page
1935 Jan. 4 (1)	*From the Ambassador in Japan (tel.)* Request from representatives of Standard-Vacuum Oil Co. for opinion as to whether the representatives of American and British oil interests should seek joint conferences with the Japanese authorities.	877
Jan. 4 (2)	*To the Ambassador in Japan (tel.)* Opinion that American and British oil interests should present a united front in negotiations with Japanese authorities, but emphasizing that any decision rests with the oil interests and not with the U. S. Government.	877
Jan. 10 (5)	*From the Ambassador in Japan (tel.)* Initial conversations, principally dealing with generalities, between the representatives of the American and British oil interests and the Japanese officials.	878
Jan. 31 (21)	*From the Ambassador in Japan (tel.)* Information that the Japanese have promised a written reply next week to a memorandum of desiderata submitted by the foreign oil companies.	878
Jan. 31 (3320)	*From the Chargé in China* Advice of Legation's instructions to the Consul General at Mukden for his guidance in replying to a letter from the Director of the Bureau of Commercial Affairs which announced a revised procedure for testing quality of oils imported into Manchuria.	878
Feb. 8 (27)	*From the Ambassador in Japan (tel.)* Japanese Official's statement to a member of the British Embassy that foreign oil companies should leave to the Government the legal aspects of the oil monopoly scheme and discuss only the commercial phase; British officer's reply that the monopoly scheme, if carried out, would force the foreign oil companies to dispose of their investments in Manchuria.	879
Feb. 8 (28)	*From the Ambassador in Japan (tel.)* Apparent recognition by the Japanese of the necessity for altering oil regulations, but their intimation of desire to suspend conversations temporarily for political reasons.	880
Feb. 9 (29)	*From the Ambassador in Japan (tel.)* Request for authorization to submit to the Foreign Office concurrent representations with the British Embassy in regard to Manchurian discrimination in import tariff on kerosene.	880
Feb. 15 (31)	*From the Ambassador in Japan (tel.)* British Ambassador's suggestion that joint informal representations might be desirable in the kerosene tariff matter; request for instructions.	881
Feb. 15 (20)	*To the Ambassador in Japan (tel.)* Approval of joint informal oral representations in the kerosene tariff matter. (Footnote: Ambassador's report of the favorable reception of oral representations made on February 19.)	882

JAPAN

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

Date and number	Subject	Page
1935		
Feb. 21 (36)	*From the Ambassador in Japan (tel.)* From the representatives of the Standard-Vacuum Oil Co. to Dundas, of the New York office: Request for confirmation of position taken in Tokyo opposing a Japanese offer of preferential rights for a limited quantity of gasoline and kerosene to be supplied to the monopoly.	882
Feb. 23 (23)	*To the Ambassador in Japan (tel.)* For representative of American oil company from Dundas: Support of views outlined in No. 36 of February 21.	882
Mar. 2 (44)	*From the Ambassador in Japan (tel.)* Information of temporary suspension of the conversations, with a discussion of the difficulties which have impeded agreement.	883
Mar. 2 (44)	*From the Ambassador in Japan (tel.)* Rejection by foreign oil representatives of a further Japanese proposal involving certain preferential rights.	884
Mar. 21 (59)	*From the Ambassador in Japan (tel.)* Telegram from Mukden, March 20 (text printed), summarizing press reports of petroleum enactments at Hsinking, including provision for enforcement of the petroleum monopoly law on April 10. Request for guidance in connection with possible questions from American oil interests.	884
Mar. 22 (44)	*To the Ambassador in Japan (tel.)* Opinions in reply to request for guidance in Ambassador's No. 59, March 21; inquiry concerning opinion on advisability of any further approach to Japan at this time.	885
Mar. 25 (63)	*From the Ambassador in Japan (tel.)* Advice that the British Embassy has received a Foreign Office reply to its formal representations of November 24 on the oil monopoly in Manchuria, and that it is seemingly unconciliatory in tone.	886
Mar. 28 (66)	*From the Ambassador in Japan (tel.)* Digest of the Japanese *aide-mémoire* of March 25 in reply to the British representations of November 24.	886
Mar. 29 (69)	*From the Ambassador in Japan (tel.)* Opinion that although further representations would be futile, a final word should be put forth indicating that the Japanese have not altered U. S. views. British consideration of possible publication of correspondence with Japan relative to the oil matter.	887
Mar. 29 (74)	*From the Consul General at Mukden* Account of developments connected with the petroleum monopoly in "Manchoukuo", with attention to its attempt to isolate foreign oil companies from their agents.	888
Mar. 30 (53)	*To the Ambassador in Japan (tel.)* Inclination to agree with views expressed in No. 69 of March 29; postponement of instructions, however, pending further report.	890

JAPAN

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

Date and number	Subject	Page
1935 Apr. 7 (75)	*From the Ambassador in Japan (tel.)* Reports from Mukden and Dairen of petroleum regulations to become effective April 10; opinion that they were issued to afford assistance to the monopoly without actually permitting the monopoly to operate within territory directly controlled by the Japanese Government.	890
Apr. 10 (77)	*From the Ambassador in Japan (tel.)* Information of British intention to present a strongly phrased *aide-mémoire* in reply to Japanese *aide-mémoire* of March 25.	891
Apr. 10	*Memorandum by the Chief of the Division of Far Eastern Affairs* Discussion with the British Ambassador regarding the "Manchoukuo" oil monopoly.	892
Apr. 11 (81)	*From the Ambassador in Japan (tel.)* Receipt of Japanese *aide-mémoire* similar to the one of March 25 received by the British, summarized in telegram No. 66 of March 28; reaffirmation of suggestion of March 29; comment on intention of oil companies to claim damages.	892
Apr. 12 (61)	*To the Ambassador in Japan (tel.)* Advice of British Embassy's request for Department's news as to possible willingness of California oil companies, if given a hint by the U. S. Government, to unite with British companies in refusing crude oil supplies for the refinery of the Manchurian Oil Co.	893
Apr. 12 (62)	*To the Ambassador in Japan (tel.)* Opinion that the Japanese appear to be trying to separate American action from British action in the oil representations; instructions to endeavor to maintain a common front, and to synchronize action with that of the British Ambassador.	893
Apr. 12 (79)	*From the Consul General at Mukden to the Minister in China* Notice issued by the Dairen Customs regarding procedure to be followed for the import into or export from "Manchoukuo" of petroleum products.	894
Apr. 13 (82)	*From the Ambassador in Japan (tel.)* Termination of the oil conversations, with Japanese confidential promises of future fulfillment of practically all desiderata of the companies.	896
Undated [Rec'd May 4]	*Memorandum by the Foreign Oil Interests in Japan* Outline of a five-point understanding reached with Shokosho officials in connection with the future business of the Standard-Vacuum Oil Co. and the Rising Sun Petroleum Co. at a meeting held April 13.	896
Apr. 15	*To the British Embassy* Advice that the U. S. Ambassador in Japan has been instructed to consult with his British colleague with a view to coordinating replies to the Japanese *aide-mémoire* on the oil matter.	897
Apr. 16 (87)	*From the Ambassador in Japan (tel.)* Account of conversation with the Foreign Minister at which oral representations were made (substance printed), and an *aide-mémoire* dated April 15 was delivered (text printed).	898

JAPAN

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

Date and number	Subject	Page
1935 Apr. 16	*To the British Ambassador* Memorandum of oral statement (text printed) setting forth U. S. views in reply to Embassy's request summarized in telegram No. 61, April 12, to the Ambassador in Japan.	900
Apr. 18	*Memorandum by Mr. Raymond C. Mackay of the Division of Far Eastern Affairs of a Conversation With Mr. Kersey F. Coe of the Standard-Vacuum Oil Company, New York* Mr. Coe's account of unsuccessful attempts of Standard-Vacuum to persuade California companies to refuse to make shipments of crude oil to Manchuria; his request that a message (text printed) be transmitted to the company's Tokyo office, indicating minimum premium which should be quoted for such Manchurian trade.	903
Apr. 22 (89)	*From the Ambassador in Japan (tel.)* For Dundas, Standard-Vacuum, New York: Necessity for quotations to Japan to be the same as those to Manchuria, since all principal Japanese refiners participate in ownership of Manchuria Oil Co.	904
Apr. 22 (90)	*From the Ambassador in Japan (tel.)* Advice that the Netherlands Legation has received, in reply to its representations of December 13, 1934, a Japanese *aide-mémoire* similar to those received by the U. S. and British Embassies, but containing several additional points.	904
Apr. 23 (91)	*From the Ambassador in Japan (tel.)* Views regarding questions which will be involved in Standard-Vacuum Co.'s damage claims for loss of business in Manchuria; request of Mr. Parker, Standard-Vacuum representative, for Department's opinion on question of company's possible offer to sell its property to the monopoly.	905
Apr. 24 (67)	*To the Ambassador in Japan (tel.)* Message from Standard-Vacuum Oil Co. to Parker (substance printed) indicating that the Department and the company are agreed that the oil interests should make the best settlement possible with local authorities and monopoly in Manchuria, leaving the question of possible claims and governmental action to the future.	906
Apr. 26 (93)	*From the Ambassador in Japan (tel.)* Outline of procedure decided upon by American and British company representatives; request for instructions.	907
Apr. 26 (68)	*To the Ambassador in Japan (tel.)* Instructions to make no commitment to any line of procedure other than that indicated in No. 67 of April 24, pending further discussion with Standard-Vacuum representatives, who will call at Department on April 29.	908
Apr. 30 (89)	*From the Consul General at Mukden to the Minister in China* Information of reports concerning preparations of the foreign oil companies to withdraw from Manchuria; reasons for believing that the companies should submit their applications for withdrawal as soon as possible.	908

JAPAN

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

Date and number	Subject	Page
1935 May 1 (72)	*To the Ambassador in Japan (tel.)* From the Standard-Vacuum Co. to its senior representative in Japan: Instructions to offer the company's assets for sale to the monopoly, but not to file copy of the offer with the Japanese Government, which might prove disadvantageous in case it should become necessary later to file a claim.	909
May 1 (73)	*To the Ambassador in Japan (tel.)* Opinion that British oil interests will also wish to follow procedure outlined in No. 72 of May 1. Belief that any presentation of claims to the Japanese Government would be unwise at least until all possibilities of negotiation by the companies in Manchuria have been exhausted.	910
May 2 (102)	*To the Ambassador in the United Kingdom (tel.)* Résumé of Department's position on the sale of oil interests in Manchuria, for oral transmittal to the Foreign Office, with expression of hope that the British views coincide.	911
May 3 (104)	*To the Ambassador in the United Kindgom (tel.)* Decision of Standard-Vacuum and Rising Sun to follow procedure outlined in telegram No. 67, April 24, to the Ambassador in Japan.	912
May 4 (204)	*From the Ambassador in the United Kingdom (tel.)* Observation of the Foreign Office that it sees no divergence of views between the U. S. and British Governments.	913
May 4 (75)	*To the Ambassador in Japan (tel.)* Information that Asiatic Petroleum Co. has been instructed from London to apply in the first place only to Manchuria, and not to approach Tokyo unless it becomes necessary later to make a claim.	913
May 4 (92)	*From the Consul General at Mukden to the Minister in China* Advice that the foreign oil companies have submitted requests to the Finance Ministry for permission to export all their stocks and to receive a refund of import duty thereon.	914
May 18 (99)	*From the Consul General at Mukden to the Minister in China* Refusal of Ministry of Finance to refund import duty on re-exports; oil company representatives' acceptance of Ministry's offer to discuss the situation.	915
May 23 (101)	*From the Consul General at Mukden to the Minister in China* Report on discussion between the oil company representatives and a Finance Ministry official, and certain proposals made by the latter.	916
June 8 (124)	*From the Ambassador in Japan (tel.)* Advice that the Netherlands Chargé has presented a note to the Foreign Office expressing inability to agree with views in the Japanese *aide-mémoire* of April 17 (summarized in telegram No. 90, April 22, from the Ambassador in Japan).	917
June 18 (1509)	*From the Ambassador in the United Kingdom* Indication from the Foreign Office that decision of British oil companies to withdraw from the "Manchoukuo" market does not necessarily mean they will also withdraw from Japan, where the situation is somewhat different.	917

JAPAN

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

Date and number	Subject	Page
1935 July 7 (343)	*From the Minister in China (tel.)* Advice of proposal by Katakura and Co., a Japanese silk firm, to take over Standard-Vacuum agency in "Manchoukuo"; apparent abandonment by the Texas Co. of policy of acting in concert with other companies.	919
July 11 (1388)	*From the Ambassador in Japan* Résumé of developments in the oil monopoly situation in Manchuria, particularly with reference to the proposal of Katakura and Co. to act as agent for the Standard-Vacuum Co.	920
July 17 (110)	*To the Ambassador in Japan (tel.)* Suggestion that the subject of oral assurances given Standard-Vacuum by the Japanese authorities in reference to petroleum regulations be mentioned to the Foreign Minister, since the Company is concerned about the carrying out of these assurances.	922
July 18 (152)	*From the Ambassador in Japan (tel.)* Advice of Cabinet discussions of petroleum regulations in Japan, and Foreign Minister's hope for a satisfactory settlement before October 1.	922
July 19 (136)	*From the Consul General at Mukden to the Minister in China* Impasse in negotiations between foreign oil companies and the "Manchoukuo" authorities.	923
Aug. 23 (1444)	*From the Chargé in Japan* Chance that foreign oil companies will receive some compensation for loss of their business in Manchuria; companies' disinclination to favor Katakura and Co.'s offer.	924
Sept. 28 (187)	*From the Chargé in Japan (tel.).* Meeting of oil representatives with the Vice Minister for Commerce and Industry, who explained present status of the oil problem, including the matter of oil storage for National Defense; opinion that American companies must withdraw or curtail operations unless action can be taken on treaty grounds.	926
Oct. 7 (160)	*To the Chargé in Japan (tel.)* Department's view that storage requirement constitutes a "military exaction" and hence is a violation of the U. S.–Japanese treaty of 1911; request for views and recommendations.	927
Oct. 15 (64)	*From the Ambassador in China (tel.)* Advice of instructions sent to the Consul General at Mukden for addressing oral and informal inquiries to Manchoukuo officials in compliance with the Standard-Vacuum Oil Co.'s request for Consular cooperation in obtaining evidence to support diplomatic claim for losses due to the operation of the Manchoukuo Oil Monopoly.	928
Oct. 17 (28)	*To the Ambassador in China (tel.)* Approval of instructions sent to Mukden, outlined in No. 64 of October 15; instructions to repeat telegram to Tokyo for views and recommendations; assumption that U. S. and British oil interests and consular authorities will act in concert.	928

JAPAN

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

Date and number	Subject	Page
1935		
Oct. 22 (196)	*From the Chargé in Japan (tel.)* Belief that course of action should be at the discretion of the Consuls General, assuming that U. S. and British Consuls General will act in concert. (Repeated to the Ambassador in China.)	929
Oct. 28 (42)	*To the Ambassador in China (tel.)* Concurrence in views expressed in No. 196 of October 22 from the Chargé in Japan.	930
Nov. 14 (176)	*To the Chargé in Japan (tel.)* Inquiry as to results of a conference understood to have been scheduled for November 6 between Japanese officials and representatives of the foreign oil interests.	930
Nov. 15 (211)	*From the Chargé in Japan (tel.)* Résumé of the conference held November 6; opinion that Japan now prefers to have the companies remain, provided they conform to present regulations. Advice of Japanese request for companies' decision on storage requirements as soon as possible.	930
Nov. 27 (184)	*To the Chargé in Japan (tel.)* British suggestion that further U. S. and British representations to the Japanese Government might strengthen position of the oil companies in their negotiations. Request for views, after consultation with British colleague and Standard-Vacuum Oil representative.	931
Nov. 30 (224)	*From the Chargé in Japan (tel.)* Advice that U. S. and British Embassies and oil representatives are agreed that the present is an appropriate time for further representations; suggestions for making the representations stronger than heretofore.	932
Dec. 6 (205)	*From the Ambassador in China (tel.)* Telegram from Mukden (text printed), summarizing informal and oral inquiries presented by the U. S. and British Consuls General to the Vice Minister for Foreign Affairs of "Manchoukuo" pursuant to the Standard-Vacuum's request for assistance in connection with "Manchoukuo's" decision not to pay compensation for loss of business.	933
Dec. 11 (194)	*To the Chargé in Japan (tel.)* Telephone conversation with the Standard-Vacuum Oil Co. pertaining to the latter's plans for further discussions in Japan; instructions to participate where deemed appropriate, but to take no steps of approach to the Japanese Government without further instructions.	934
Dec. 12 (196)	*To Chargé in Japan (tel.)* Further conversation with Standard-Vacuum Co., and decision that if the oil companies wish to try to conclude a trade with the Japanese Government, the Department will take no official position either of approval or disapproval.	934

JAPAN

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

Date and number	Subject	Page
1935		
Dec. 13 (240)	*From the Chargé in Japan (tel.)* Intention of companies to offer to trade on some terms the hydrogenation process for confirmation of the five-point memorandum (printed on page 896), and their desire for diplomatic support; indication of British Ambassador's intended action, and request for authorization to make general representations.	935
Dec. 13 (199)	*To the Chargé in Japan (tel.)* Authorization as requested, but instructions to guard against giving impression that U. S. Government is in any way associated with the oil companies' contemplated proposal.	936
Dec. 16 (231)	*From the Ambassador in China (tel.)* From Mukden, December 15: Communication from "Manchoukuo" Foreign Minister (text printed) indicating nonrecognition of principle of compensation for losses incurred by American companies, but willingness to purchase equipment at a reasonable price after investigation of value.	936
Dec. 19 (246)	*From the Ambassador in Japan (tel.)* Report on various indications that Japanese Government is giving the oil matter serious attention; decision, therefore, not to seek a special interview for making representations at this juncture.	937
Dec. 21 (249)	*From the Ambassador in Japan (tel.)* Opinion of foreign oil representatives that in view of "Manchoukuo" Government's nonrecognition of the principle of compensation, the oil companies should file claims, perhaps through diplomatic channels.	938
Dec. 26 (251)	*From the Ambassador in Japan (tel.)* Résumé of Japanese verbal reply to proposal of the foreign oil interests described in No. 240 of December 13; advice that the oil representatives will discuss the reply with Kurusu on December 27.	938
Dec. 28 (253)	*From the Ambassador in Japan (tel.)* Conversation between oil representatives and Kurusu, who stated that he would attempt to overcome the impasse in connection with the oil storage obligations after the holidays.	939
Dec. 30 (204)	*To the Ambassador in Japan (tel.)* Advice that the New York office of the Standard-Vacuum Co. has been informed of Department's readiness to consider a diplomatic claim against the Japanese Government, if the company desires.	939

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

1935		
Feb. 15	*Memorandum by the Commercial Attaché in Japan of a Conversation With the Chief of the Commercial Bureau, Japanese Foreign Office* Kurusu's interest in reconciling Japan's unfavorable trade balance with the United States and favorable balance in Latin America by means of a trilateral trade agreement.	940

JAPAN

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

Date and number	Subject	Page
1935 [Feb. 19]	*Memorandum by the Secretary of State* Explanation to the Japanese Ambassador that the memorandum which he presented (*infra*) is entirely in error in its implications as to possible U. S. intent to interfere with Japanese trade.	942
Undated [Rec'd Feb. 19]	*From the Japanese Embassy* Explanation of Japanese difficulties in trade with Latin America and the United States, with suggestion for coping with the situation on the principle of triangular trade.	945
Mar. 11	*To the Japanese Embassy* Observations on U. S.-Japanese trade relations, with an explanation of U. S. trade policy and comments on the subject of triangular trade.	947
Mar. 20 (1206)	*From the Ambassador in Japan* Detailed observations in regard to the present prosperous economic situation in Japan, with attention to the profitable nature of her foreign trade.	949
Mar. 27	*Memorandum by the Under Secretary of State of a Conversation With the Japanese Ambassador* Ambassador's representations concerning possible tariff barriers affecting Japanese cotton trade.	951
Apr. 11	*Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs* Conversation between the Assistant Secretary of State and the Japanese Ambassador regarding problems created by competition offered by Japanese goods.	951
Apr. 12	*Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs of a Conversation With the Counselor of the Japanese Embassy* Further discussion of problems created by Japanese imports, with particular reference to the sudden influx of Japanese goods and the large differential in price between Japanese and American goods.	953
Apr. 18	*Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs* Conversation with officers of the Japanese Embassy, who advocated relaxation of restrictions governing Japanese imports of wood-cased lead pencils into the United States.	955
Apr. 19	*Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs* Conversation with the Commercial Secretary of the Japanese Embassy and a representative of Japanese match interests, during which the latter submitted a letter for consideration relative to voluntarily limiting their match exports to the United States.	957
Apr. 23	*Memorandum by the Secretary of State* Conversation with the Japanese Ambassador relative to the reciprocity and general economic program being promoted by the American Government.	957

JAPAN

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

Date and number	Subject	Page
1935		
Apr. 25	*Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs of a Conversation With the Counselor of the Japanese Embassy* Discussion on regulating exports of Japanese cotton textiles to the Philippine Islands.	958
Apr. 30	*Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs of a Conversation With the Counselor of the Japanese Embassy* Indications of Japanese position regarding cotton textile exports to the Philippines, with suggested basis for discussion.	960
May 7	*Memorandum of Suggested Terms of a Voluntary Arrangement Limiting Japanese Exports of Cotton Piece Goods to the Philippines* Itemized terms of arrangement, with provision for reconsideration if Philippine tariff rates should be raised. (Footnote: Report adopted by the Inter-Departmental Committee on the Philippines.)	960
May 8	*To the Chief of the Bureau of Insular Affairs, War Department* Secretary's desire to seek the opinion of Governor General Murphy as to advisability of consultation with Filipino leaders before entering conversations with Japan in connection with the proposed textile arrangement. (Footnote: Murphy's discussion with Quezon, who raised no objections.)	962
May 23	*Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs* Conversation between the Assistant Secretary of State and the Japanese Ambassador reviewing commercial problems, particularly those relating to Japan's trade with the Philippines and the actions of certain Latin American countries toward restricting imports of Japanese goods.	963
May 25	*Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs* Explanation to officers of the Japanese Embassy of U. S. inability to accept without modification the Japanese proposal for voluntary restriction of exports of cotton textiles to the Philippines; Japanese counter-suggestions.	966
May 31	*Memorandum by Mr. Roy Veatch of the Office of the Economic Adviser* Recommendations by the Inter-Departmental Committee on the Philippines relative to the position to be taken in further discussions with Japanese representatives regarding the specific counter-suggestions made by the Japanese.	967
June 5	*Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs* Conversation with Mr. Kuroda, of the Japanese Embassy, and Mr. Waring of U. S. Tariff Commission concerning the revised proposal authorized by the Philippine Committee.	968
June 15	*Memorandum by the Secretary of State* Explanation of U. S. comprehensive economic program in reply to inquiry of Mr. Okada, a member of the Japanese lower house, who called with the Japanese Ambassador.	970

JAPAN

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

Date and number	Subject	Page
1935 June 15	*Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs of a Conversation With the Attaché of the Japanese Embassy* Attaché's presentation of a new Japanese proposal, with indication of objections to the U. S. proposal set forth in the conversation of June 5.	971
June 19	*Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs* Explanation by Assistant Secretary Sayre to the Japanese Ambassador that United States desires an equitable and friendly solution of the Philippine textile situation and is carefully examining the most recent Japanese proposal, but that no agreement can be reached unless Japan gives evidence of a cooperative attitude.	972
June 26	*To the Japanese Ambassador* Appreciative acknowledgment of the cooperative action of Japanese manufacturers and exporters of cotton rugs by extending their limitation of the export of cotton rugs for another year; hope that current survey of the American cotton rug industry will justify increased participation of Japanese exporters in the American market.	974
June 27 (1366)	*From the Ambassador in Japan* Apparent hope of Kurusu of the Foreign Office for an agreement providing for voluntary restrictions on exports of Japanese cotton piece goods to the United States, in return for which United States would be expected not to impose higher tariffs or restrictions on such goods.	975
July 11	*Memorandum by Mr. Leo D. Sturgeon of the Division of Far Eastern Affairs of a Conversation With the Third Secretary of the Japanese Embassy* Inquiry from Japanese Embassy regarding the significance of a press report that the Governor general of the Philippines had proposed to the Legislature a tariff on imports of cotton textiles.	976
July 13	*Memorandum by Mr. Leo D. Sturgeon of the Division of Far Eastern Affairs of a Conversation With the Third Secretary of the Japanese Embassy* Discussion of (1) the basis of estimated 1935 textile imports into the Philippines, (2) possible significance of the recent proposal of the Governor General of the Philippines, and (3) the situation in Japan.	976
July 16	*Memorandum by Mr. Leo D. Sturgeon of the Division of Far Eastern Affairs* Discussion with Japanese Embassy officials and representatives of the Japanese Raw Silk Importers Association of New York relative to the proposed taxes on rayon and silk, now before the Senate Agriculture Committee.	979
July 16 (109)	*To the Ambassador in Japan (tel.)* Suggestion that the hope might be expressed to the Foreign Minister that present U. S.–Japanese negotiations on the Philippine textile trade may be brought to a mutually satisfactory conclusion.	981

JAPAN

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

Date and number	Subject	Page
1935 July 17	*Memorandum by Mr. Leo D. Sturgeon of the Division of Far Eastern Affairs of a Conversation With the First Secretary of the Japanese Embassy* Serious concern of the Japanese Government and people in regard to the proposed silk taxes.	981
July 17	*Memorandum by the Ambassador in Japan of a Conversation With the Chief of the Commercial Affairs Bureau, Japanese Foreign Office* Discussion of various points bearing upon trade relations between the United States and Japan.	982
July 19	*Memorandum by the Under Secretary of State* Expression of appreciation from the Japanese Ambassador for the Department's help in removing danger of a tax on rayon and silk.	984
Undated [Rec'd July 19]	*From the Japanese Embassy* Memorandum of proposals for an apportionment of imports of cotton textiles into the Philippines.	985
July 22	*From the Chief of the Far Eastern Section, Divsion of Regional Information, Department of Commerce, to the Inter-Departmental Subcommittee on Japanese Competition* Observations relative to present conditons in Japanese industry as they affect the American people, and opinion that no immediate formal policy should be undertaken in meeting complaints against Japanese competition.	986
July 26	*Memorandum by Mr. Leo D. Sturgeon of the Division of Far Eastern Affairs* Record of conversation in which Assistant Secretary Sayre made oral reply to the Japanese memorandum delivered July 19, and presented a memorandum of data on Philippine imports (*infra*); Sayre's suggestion of a 50–50 basis for sharing the Philippine textile trade, urging speed in agreement to prevent possible Philippine tariff action.	987
July 24	*To the Japanese Embassy* Memorandum of customs statistics of imports of cotton textiles into the Philippines for first two quarters of 1935, as best available basis for estimating future consumption in the Philippines.	990
Aug. 14	*Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs of a Conversation With the Third Secretary of the Japanese Embassy* Details of Japanese unfavorable attitude toward most recent U. S. suggestions.	991
Aug. 16	*Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs of a Conversation With the Third Secretary of the Japanese Embassy* Presentation of the Department's regretful conclusion that a reconciliation of the U. S. and Japanese positions relative to the Philippine textile market appears to be impossible, but assurance that the U. S. proposal is left open for possible later acceptance.	993

JAPAN

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

Date and number	Subject	Page
1935 Sept. 20	*Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs* Assistant Secretary's conversation with Japanese Ambassador and Counselor of Embassy in which Mr. Sayre requested that Japan take a definite stand on the textile matter, in view of significance of possible Philippine tariff legislation; request for Japanese approval of a draft statement (*infra*) which the Department would like to issue.	994
Undated	*Draft Statement Prepared by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs* Text handed to the Japanese Ambassador on September 20 for his Government's approval	996
Sept. 23	*Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs* Discussion between the Assistant Secretary of State and the Japanese Counselor of Embassy regarding the Japanese addition of certain words in the draft statement which were unacceptable to the U. S. Government.	996
Sept. 23 (148)	*To the Chargé in Japan (tel.)* Message for the Foreign Minister on the textile situation (text printed), with instructions to stress the urgency of the matter, and to indicate U. S. reluctance to believe the Japanese position of September 23 is final.	997
Sept. 26 (183)	*From the Chargé in Japan (tel.)* Advice from the Foreign Minister that position of September 23 is not final and that further instructions will be sent to the Japanese Embassy in Washington.	998
Sept. 27 (154)	*To the Chargé in Japan (tel.)* Information from the Japanese Embassy that Japan is willing to urge assent of exporters to an annual figure of not more than 45,000,000 square meters provided Philippine tariff is not raised; Department's plan to accord proposal favorable consideration after clarification of a few points.	998
Sept. 30	*Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs* Discussion between the Assistant Secretary of State and officers of the Japanese Embassy in regard to the effective date for the proposed Philippine textile agreement.	999
Oct. 2	*Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs of a Conversation With the Counselor of the Japanese Embassy* Discussion of three points raised by Japan regarding the proposed gentlemen's agreement on textile trade with the Philippines.	1001
Oct. 3	*Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs* Conversation between the Assistant Secretary of State and the Japanese Counselor of Embassy clarifying the U. S. position relative to the three points raised on October 2.	1002

JAPAN

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

Date and number	Subject	Page
1935 Oct. 11	*To the Secretary of Commerce* Comments concerning desirability of seeking a friendly agreement with the Japanese for the voluntary regulation of the volume of cotton textile imports into the United States from Japan.	1004
Oct. 11	*Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs* Account of the initialing by the Assistant Secretary and the Japanese Ambassador of memorandum of conversation (*infra*) concluding the U. S.-Japanese negotiations regarding imports of Japanese cotton textiles into the Philippines.	1006
Oct. 11	*Memorandum Initialed by the Assistant Secretary of State and the Japanese Ambassador* Conversation confirming the conditions governing voluntary limitation of Japanese imports of cotton piece goods into the Philippine Islands.	1007
Oct. 12	*Press Release Issued by the Department of State on October 12, 1935* Statement regarding the voluntary limitation of imports of Japanese cotton piece goods into the Philippine Islands.	1008
Oct. 23	*To the Secretary of Commerce* Advice that the Executive Committee on Commercial Policy has suggested that a letter be sent to the President by the Cabinet Committee on Textiles urging early initiation of conversations with the Japanese with regard to imports of textile products into the United States from Japan.	1011
Oct. 28	*To the Japanese Embassy* Readiness to agree to substantial increases in Japanese imports of chenille and hit-and-miss rugs, due to recent favorable trends in the domestic cotton rug industry and the cotton rug market.	1012
Undated [Rec'd Oct. 28]	*From Messrs. Dorfman and Waring of the United States Tariff Commission* Inquiry as to whether the annual quota specified in the recent U. S.-Japanese arrangement was intended to include Japanese textiles transshipped to the Philippines through Hong Kong and other ports.	1012
Oct. 29	*To the Appointed High Commissioner in the Philippines* Detailed observations with regard to the recently concluded agreement with the Japanese providing for voluntary restriction of importations of Japanese cotton piece goods into the Philippines.	1013
Oct. 30	*To the Appointed High Commissioner in the Philippines* For Messrs. Dorfman and Waring: Information that the annual quota specified in the recent U. S.-Japanese agreements is meant to include textiles transshipped through Hong Kong and other ports.	1016

JAPAN

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

Date and number	Subject	Page
1935 Oct. 31	*To the Secretary of Commerce* Transmittal of confidential report by a Subcommittee of the Executive Committee on Commercial Policy regarding items to be included in contemplated discussions with the Japanese looking toward limitation of importations of textile products into the United States.	1017
Nov. 4	*From the Secretary of Commerce* Copy of a letter sent to the President by the Cabinet Textile Committee, October 28 (text printed), recommending early action to regulate or restrict textile imports from Japan; advice of President's approval.	1018
Nov. 27	*Memorandum by Mr. Roy Veatch of the Office of the Economic Adviser* Discussion between Department officials and the Japanese Ambassador, who was handed a statement (*infra*) giving statistics on the recent imports of Japanese textiles into the Philippines.	1020
Nov. 27	*To the Japanese Embassy* Report from the Philippine Customs Service showing excessive Japanese imports of cotton piece goods into the Philippines during the first 3 months of the agreement.	1022
Dec. 3	*Memorandum by Mr. Roy Veatch of the Office of the Economic Adviser* Discussion between the Assistant Secretary of State and the Counselor of the Japanese Embassy concerning (1) discrepancy between Japanese statistics and those from the Philippine Customs Service; (2) Japan's desire that Japanese goods reshipped from Hong Kong or other ports into the Philippines not be included in the statistics of imports from Japan, as the Japanese were unable to control this trade.	1023
Dec. 4	*To the High Commissioner in the Philippines* Explanation of present U. S. position in regard to Philippine imports of Japanese goods in excess of quota set in agreement with Japan. Inquiry for Dorfman, Richards, and Waring (text printed) concerning statistics and actual situation at present.	1029
Dec. 10	*Memorandum by Mr. Roy Veatch of the Office of the Economic Adviser of a Conversation With the Third Secretary of the Japanese Embassy* Japanese advice of a message received from the Japanese Consul General at Manila containing statistics secured from the Philippine collector of customs.	1031
Dec. 11 (620)	*From the High Commissioner in the Philippines to the Secretary of War* For the Assistant Secretary of State: Clarification of seeming variations in statistics covering imports into the Philippines.	1032

JAPAN

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

Date and number	Subject	Page
1935 Dec. 13	*Memorandum by Mr. Roy Veatch of the Office of the Economic Adviser* Discussion between the Assistant Secretary of State and the Japanese Counselor of Embassy concerning a move by various textile groups to secure legislation against imports of Japanese textiles, and Japan's failure to reply to U. S. suggestion for discussions looking toward import control.	1033
Dec. 14	*Memorandum by Mr. Roy Veatch of the Office of the Economic Adviser* Discussion between the Assistant Secretary of State and the Japanese Ambassador relative to necessary adjustments of the statistical basis of the agreement governing imports into the Philippines.	1036
Dec. 21	*Memorandum by Mr. Roy Veatch of the Office of the Economic Adviser* Call from the Japanese Ambassador, who delivered a statement (*infra*) to the Assistant Secretary, and explained that his government could not accept the U. S. suggestion looking toward control of exports to the United States; Assistant Secretary's plans for a press statement. (Footnote: Release of press statement December 22.)	1037
Undated [Rec'd Dec. 21]	*From the Japanese Embassy* Statement of Japanese reasons for nonacceptance of U. S. proposal.	1038
Dec. 21	*Text of Statement Released to the Press by the Secretary of Finance of the Philippine Government* Explanation of reasons for difference in figures of amounts of Japanese cotton textiles shipped to the Philippines, and understanding that U. S. and Japanese Governments are conferring with respect to an adjustment of the basis of measurement of future imports.	1039
Dec. 24	*To the Consul General at Shanghai (tel.)* For Kobe: Memorandum handed to the Japanese Ambassador (substance printed) seeking cooperation in arriving at a basis of classification of rug exports to avoid discrepancies between Japanese and American figures; Japanese reply indicating readiness of Japanese exporters to cooperate. Instructions to confer with representatives of the exporters' association relative to the problem, and to relay instruction to other Consulates.	1040
Dec. 26	*Memorandum by Mr. Roy Veatch of the Office of the Economic Adviser of a Conversation With the Counselor of the Japanese Embassy* Informal discussion of interpretation of the Philippine import agreement in an effort to readjust the terms on a mutually satisfactory basis.	1042
Dec. 27	*Memorandum by Mr. Roy Veatch of the Office of the Economic Adviser* Further discussion between the Japanese Ambassador and the Assistant Secretary regarding the confusion as to interpretation of the agreement and possibilities for readjustment along certain lines.	1045

JAPAN

PROPOSED JAPANESE AUTOMOBILE LEGISLATION VIOLATIVE OF THE 1911 TREATY OF COMMERCE AND NAVIGATION BETWEEN THE UNITED STATES AND JAPAN

Date and number	Subject	Page
1935 Aug. 10 (165)	*From the Chargé in Japan (tel.)* Provisions of a draft bill, approved by the Cabinet for submission to next session of the Diet, for the control of the automobile industry by means of a system of licenses favoring Japanese companies and subjects.	1048
Nov. 18 (882)	*To the Chargé in Japan* Authorization to discuss orally and informally with the Foreign Office the proposed legislation, conveying U. S. opinion that its enactment and enforcement would be in contravention of the Treaty of Commerce and Navigation of 1911.	1048
Dec. 19 (247)	*From the Ambassador in Japan (tel.)* Information concerning negotiations, apparently in anticipation of the proposed automobile legislation, between General Motors and Japanese interests in regard to future manufacture in Japan. Suggestion that the matter first be discussed informally with Kurusu of the Commercial Affairs Bureau in an exploratory way.	1051
Dec. 24 (202)	*To the Ambassador in Japan (tel.)* Nonobjection to suggested exploratory conversations with Kurusu in regard to details of the draft legislation.	1051

PROPOSAL OF A CONSULAR CONVENTION BETWEEN THE UNITED STATES AND JAPAN

1935 Jan. 28 (677)	*To the Ambassador in Japan* Transmittal of a preliminary draft of a proposed consular convention with Japan, with instructions to examine it, refer it to the Consul General, and submit suggestions or amendments.	1052
Apr. 25	*Memorandum by the Secretary of State* Conversation with the Japanese Ambassador, who stated that Japan is ready to negotiate a consular convention; Department's agreement to designate a representative to confer with one of the officers of the Japanese Embassy.	1052
May 3 (1272)	*From the Ambassador in Japan* Suggestions as requested in Department's No. 677 of January 28 relative to the preliminary draft of proposed consular convention.	1053
June 7	*Memorandum by Mr. William T. Turner of the Division of Far Eastern Affairs* Conversation between Department representatives and Mr. Kawahara of the Japanese Embassy, who presented a memorandum based on a study of the U. S.-German Consular convention; U. S. outline of suggestions (text printed) for Japanese consideration.	1054
June 26	*Memorandum by Mr. William T. Turner of the Division of Far Eastern Affairs* Discussion with Mr. Kawahara of suggested amendments to the Department's preliminary draft convention.	1056

JAPAN

PROPOSAL OF A CONSULAR CONVENTION BETWEEN THE UNITED STATES AND JAPAN—Continued

Date and number	Subject	Page
1935 June 28	*Memorandum by the Assistant to the Legal Adviser to Mr. Eugene H. Dooman of the Division of Far Eastern Affairs* Observations in regard to the several inquiries contained in the informal memorandum submitted by the Japanese Embassy on June 7 relative to certain provisions of the U. S.-German treaty.	1058
July 15	*Memorandum by Mr. William T. Turner of the Division of Far Eastern Affairs of a Conversation With the Third Secretary of the Japanese Embassy* Exchange of U. S. and Japanese views concerning the proposed consular convention.	1061
July 17	*Memorandum by Mr. William T. Turner of the Division of Far Eastern Affairs of a Conversation With the Third Secretary of the Japanese Embassy* Consultation regarding desirability of incorporating into the new convention all desirable portions of previous treaties affecting consular officers.	1063
July 23	*Memorandum by the Consul General at Tokyo* Discussion with Mr. Matsudaira of the Treaty Division of the Foreign Office in regard to interpretation of the term "crimes other than misdemeanors", as used in the U. S.-Polish Treaty, upon which Japan is evidently basing its draft of the proposed convention.	1064
July 25	*Memorandum by the Consul General at Tokyo* Account of several conversations with Mr. Matsudaira in regard to proposed treaty provisions governing tax exemption and consular inspection of vessels for the issuance of bills of health.	1065
Oct. 28 (865)	*To the Chargé in Japan* Advice that there has been a suggestion for inclusion in proposed convention of a provision relative to visits of consuls to their nationals accused of crime and under confinement; request that a search be made of Embassy archives for a Japanese reply to an 1899 memorandum on the subject.	1066
Dec. 6 (1577)	*From the Chargé in Japan* Information that a thorough search of the Embassy archives indicates that no reply was received to the memorandum; opinion that Japan would be unlikely at the present time to take legislative action necessary to incorporate the provision under consideration in the convention. (Footnote: Further inconclusive discussion of articles for a consular convention in 1936 and 1937.)	1067

PROPOSED LEGISLATION IN THE STATE OF ARIZONA AFFECTING RIGHT OF JAPANESE NATIONALS TO CULTIVATE AGRICULTURAL LAND

1935 Feb. 23 (25)	*To the Ambassador in Japan (tel.)* Information that the Japanese Ambassador is concerned over a bill in the Arizona legislature denying Japanese the right to cultivate land; that the Department has doubts regarding constitutionality of the bill, and is making discreet efforts to prevent its passage.	1068

JAPAN

PROPOSED LEGISLATION IN THE STATE OF ARIZONA AFFECTING RIGHT OF JAPANESE NATIONALS TO CULTIVATE AGRICULTURAL LAND—Continued

Date and number	Subject	Page
1935		
Feb. 28 (28)	*To the Ambassador in Japan (tel.)* Advice of assurance to the Japanese Ambassador of Department's efforts in connection with the Arizona measure, with reasons why the matter is a delicate one and should be kept confidential; instructions to inform the Foreign Minister.	1069
Mar. 2 (42)	*From the Ambassador in Japan (tel.)* Compliance with instructions; Foreign Minister's assurance of full understanding.	1070
Mar. 19	*Memorandum by the Chief of the Division of Far Eastern Affairs of a Conversation With the Counselor of the Japanese Embassy* Discussion of the pending legislation in Arizona, and Department's reiteration of promise to do whatever is appropriately possible in the matter.	1070
Mar. 19	*Memorandum by the Chief of the Division of Far Eastern Affairs of a Conversation With the Counselor of the Japanese Embassy* Japanese Embassy's request for any possible Department aid in preventing the passage of a bill reported to be pending in California which would make it more difficult for Japanese to work in that state.	1070
Mar. 22 (45)	*To the Ambassador in Japan (tel.)* United Press report from Arizona that the State Legislature has adjourned and that the alien land bills died on the calendar.	1071
Mar. 27	*Memorandum by the Under Secretary of State* Conversation with the Japanese Ambassador, who brought a message from the Foreign Minister expressing Japan's appreciation for the Department's efforts in the Arizona matter.	1071

DISINCLINATION OF JAPAN TO NEGOTIATE A CONVENTION WITH THE UNITED STATES REGULATING FISHERIES OFF THE COAST OF ALASKA

1934		
Nov. 19 (639)	*To the Ambassador in Japan* Request for views regarding the timeliness and advisability of negotiating a treaty with Japan for the protection of Alaskan salmon fishing industry.	1072
1935		
Jan. 19	*From the Secretary of the Navy* Advice of certain considerations arising from the fact that many of the Japanese fishing vessels engaged in fishing on the U. S. coast are equipped with long-range radio.	1073
Jan. 26	*To the Secretary of the Navy* Expectation of early presentation of the matter of the activity of Japanese fishing vessels to an interdepartmental committee.	1073
Mar. 8 (35)	*To the Ambassador in Japan (tel.)* Desire for views as soon as practicable on the matter of possible negotiation of a fisheries treaty. (Footnote: Ambassador's reply suggesting delay pending Russo-Japanese fisheries discussions.)	1074

JAPAN

DISINCLINATION OF JAPAN TO NEGOTIATE A CONVENTION WITH THE UNITED STATES REGULATING FISHERIES OFF THE COAST OF ALASKA—Continued

Date and number	Subject	Page
1935		
Apr. 22 (748)	*To the Ambassador in Japan* Comments on Ambassador's views, and instructions to follow the Soviet-Japanese negotiations and report as soon as it seems opportune to approach the Japanese Government.	1074
June 3 (118)	*From the Ambassador in Japan (tel.)* Suggestion that the Foreign Office be informally approached in regard to the Bering Sea activities of the Japanese fishing interests, in view of likelihood that the Soviet-Japanese negotiations will be protracted.	1075
Aug. 3 (119)	*To the Chargé in Japan (tel.)* Authorization to approach the Foreign Office informally; advice that Department of Commerce is ready to send Ward T. Bower, fisheries expert, to Japan for technical discussions whenever considered desirable.	1076
Aug. 7 (163)	*From the Chargé in Japan (tel.)* Informal discussion with the Vice Minister for Foreign Affairs, who inquired whether United States would be prepared to make formal proposals in case Japan wishes to enter negotiations for a convention.	1077
Aug. 30 (132)	*To the Chargé in Japan (tel.)* Information for Foreign Office that U. S. Government is prepared to present specific proposals.	1077
Nov. 12 (208)	*From the Chargé in Japan (tel.)* Account of Foreign Office reasons for not wishing to enter into negotiations at the present time.	1078
Nov. 29 (186)	*To the Chargé in Japan (tel.)* Oral discussion of fisheries matter with the Japanese Ambassador, who will present the U. S. position to his Government; instructions to take no further action until receipt of reply from Japan.	1079
Dec. 30	*Memorandum by Mr. Roy Veatch of the Office of the Economic Adviser* Conversation between the Assistant Secretary of State and the Counselor of the Japanese Embassy, who set forth Japan's definite rejection of treaty negotiations, but intention to continue discouraging salmon fishing in the waters in question. (Footnote: Instructions to Ambassador in Japan, January 11, 1936, to forward any suggestions or comments relative to the proposed agreement despite the present Japanese attitude.)	1079

OBSERVATIONS BY THE JAPANESE GOVERNMENT REGARDING RESTRICTIONS UPON THE DEVELOPMENT AND EXPLOITATION OF NATURAL RESOURCES BY ALIENS IN THE PHILIPPINE ISLANDS

1935		
Mar. 4	*Memorandum by the Under Secretary of State* Call by the Japanese Ambassador, who left a memorandum (*infra*) relative to the desirability of deleting certain provisions from the draft constitution of the Philippines.	1080

JAPAN

OBSERVATIONS BY THE JAPANESE GOVERNMENT REGARDING RESTRICTIONS UPON THE DEVELOPMENT AND EXPLOITATION OF NATURAL RESOURCES BY ALIENS IN THE PHILIPPINE ISLANDS—Continued

Date and number	Subject	Page
1935 Undated [Rec'd Mar. 4]	*From the Japanese Embassy* Observations and suggestions concerning provisions in the Philippine draft constitution restricting the development and exploitation of natural resources by foreign nationals.	1081
Mar. 16	*To the Secretary of War* Advice that the U. S. Embassy in Tokyo has been instructed to make available certain information bearing on the question whether the laws of Japan prohibit or restrict the development and exploitation by foreign nationals of the natural resources of Japan.	1082
Mar. 19	*To the Japanese Embassy* Interpretation of the portion of the draft constitution of the Philippines which relates to conservation and utilization of natural resources, indicating no discrimination against the Japanese.	1082
Mar. 26	*To the Secretary of War* Transmittal of copy of the memorandum of March 19, with suggestion that it may be desirable to inform the Governor General of the Philippines in regard to the question raised by the Japanese.	1084
Mar. 29 (68)	*From the Ambassador in Japan (tel.)* Information that despite the lack of Japanese legislation restricting exploitation by foreigners of natural resources other than mining, there are administrative policies which in practice would probably prevent such exploitation.	1085
Apr. 12	*To the Secretary of War* Résumé of information received from the Embassy in Tokyo relative to Japanese laws and practices.	1085

REFUSAL OF THE UNITED STATES TO ACCEDE TO DEMAND OF JAPANESE CONSUL AT CHEFOO FOR AN OFFICIAL APOLOGY FOLLOWING CONFLICT BETWEEN AMERICAN AND JAPANESE NATIONALS

1935 Sept. 21 (7)	*From the Ambassador in China (tel.)* From Chefoo, September 19: Report on an incident of September 3 involving a Japanese consular police officer and an American citizen and subsequent demands from Japanese Consul for apologies and guarantees; request for instructions. To Chefoo, September 21: Instructions to follow procedure provided for under extraterritorial jurisdiction.	1087
Sept. 21	*From the Consul at Chefoo (tel.)* Compliance with Embassy's instructions of September 21.	1089
Sept. 23 (3)	*To the Ambassador in China (tel.)* Inquiry as to why no charge has been lodged against the Japanese policeman involved in the Chefoo incident.	1090

JAPAN

REFUSAL OF THE UNITED STATES TO ACCEDE TO DEMAND OF JAPANESE CONSUL AT CHEFOO FOR AN OFFICIAL APOLOGY FOLLOWING CONFLICT BETWEEN AMERICAN AND JAPANESE NATIONALS—Continued

Date and number	Subject	Page
1935 Sept. 24 (9)	*From the Ambassador in China (tel.)* Advice that delay in charges against the Japanese policeman is due to attempt to learn actual facts in an involved situation of brawls and gang revenge.	1090
Sept. 26 (17)	*From the Ambassador in China (tel.)* From Chefoo, September 25: Information that the Japanese Consulate has repeated its demands, and now desires a settlement through diplomatic negotiations. To Chefoo, September 26: Instructions to withhold apology, but to cooperate with Japanese Consul in determining facts. Information that the Japanese Embassy believes that settlement of the incident is not a matter for diplomatic negotiations, but is responsibility of the Consulates at Chefoo.	1091
Sept. 27 (7)	*To the Ambassador in China (tel.)* Instructions to repeat to Chefoo the Japanese Embassy's position regarding a diplomatic settlement.	1092
Sept. 29 (20)	*From the Ambassador in China (tel.)* Extracts from telegrams exchanged with Chefoo relative to the repeated Japanese demands for an apology. Advice that situation at Chefoo grows more complicated, and suggestion that the Consul General at Mukden be ordered to Chefoo to investigate and make recommendations.	1093
Oct. 2 (21)	*From the Counselor of Embassy in China (tel.)* From Chefoo, October 1: Advice of Japanese Consul's current request that U. S. Consul recognize participation of U. S. Navy personnel in the incident and express regret; belief that Navy personnel actually was involved. Instructions to Consul General at Mukden and Consul at Chefoo to proceed to Peiping for consultation.	1094
Oct. 2 (23)	*From the Counselor of Embassy in China (tel.)* From Chefoo: Transmittal of Japanese Consul's request reported earlier (text printed).	1094
Oct. 7 (34)	*From the Ambassador in China (tel.)* Instructions to Consul at Chefoo, in view of his statement that Navy was involved, to attempt settlement on basis of mutual oral assurances to prevent further disturbances, or on basis of mutual expressions of regret and assurances of investigation.	1095
Oct. 15 (61)	*From the Ambassador in China (tel.)* From Chefoo, October 14: Japanese Consul's rejection of proposed basis of settlement. Intention to take no further action unless Japanese make new overtures.	1095
Oct. 24 (88)	*From the Counselor of Embassy in China (tel.)* Ambassador's approval of a letter (text printed) to be sent by the Consul at Chefoo in reply to the Japanese Consul's request, October 16, for an expression of personal regret in connection with the Chefoo incident.	1096

JAPAN

REFUSAL OF THE UNITED STATES TO ACCEDE TO DEMAND OF JAPANESE CONSUL AT CHEFOO FOR AN OFFICIAL APOLOGY FOLLOWING CONFLICT BETWEEN AMERICAN AND JAPANESE NATIONALS—Continued

Date and number	Subject	Page
1935 Dec. 17 (82)	*To the Ambassador in China (tel.)* Approval of a proposal by the Ambassador to make representations to the Japanese Ambassador in China concerning the character and tone of the letters from the Japanese Consul at Chefoo to the U. S. Consul there. (Footnotes: Information of other incidents similar to the one of September 3, and of Japanese Embassy's reply to representations.)	1097
PROTECTION OF CONTRACT RIGHTS OF THE ORIENTAL CONSOLIDATED MINING COMPANY, AN AMERICAN FIRM OPERATING IN KOREA		
1935 May 6 (755)	*To the Ambassador in Japan* Instructions to transmit a full report of the legal remedies available and resorted to by the Oriental Consolidated Mining Co. in an effort to secure redress for the Japanese denial of a permit to export gold. (Footnote: Report from the Ambassador that the Company feels it has exhausted all legal remedies in the premises; opinion that the Japanese Government will refuse to admit damages at this time.)	1097
June 10 (1340)	*From the Ambassador in Japan* Refusal of company to allow examination of its books by government authorities for purposes of assessing income tax on company's employees; request for authorization for the Consul at Seoul to suggest the keeping of a separate ledger for salaries to be shown to the authorities voluntarily. (Footnote: Grant of authorization.)	1099
ATTITUDE OF THE UNITED STATES REGARDING CORPORATION IN "MANCHOUKUO" ORGANIZED UNDER AMERICAN LAW BUT WITHOUT AMERICAN FINANCIAL INTEREST		
1934 May 28 (155)	*To the Minister in China (tel.)* Detailed comments and instructions relative to rights of the Thrift and Investment, Finance and Trust Corporation, chartered under the laws of Nevada; request for complete report concerning its "precarious activities" referred to by the Consul at Harbin.	1100
1935 Oct. 6 (29)	*From the Ambassador in China (tel.)* From Harbin: Information that the Thriftcor Bank has suspended activity, and inquiry whether U. S. Court for China should be requested to appoint a liquidator. Opinion of the Judge of the U. S. Court for China that it has no jurisdiction over the bank's liquidation, since no American interest is shown. Request for authorization to so instruct the Consul.	1101
Oct. 7 (15)	*To the Ambassador in China (tel.)* Authorization as requested, with comments on the situation.	1102

JAPAN

ATTITUDE OF THE UNITED STATES REGARDING CORPORATION IN "MANCHOUKUO" ORGANIZED UNDER AMERICAN LAW BUT WITHOUT AMERICAN FINANCIAL INTEREST—Continued

Date and number	Subject	Page
1935 Oct. 10 (42)	*From the Ambassador in China (tel.)* From Harbin, October 9: Desire to issue a statement, in view of nonassumption of jurisdiction by the U. S. Court for China, to prevent impression that local authorities have assumed jurisdiction in derogation of U. S. extraterritorial rights.	1102
Oct. 10 (45)	*From the Ambassador in China (tel.)* From Judge of the U. S. Court for China: Authorization for issuance of statement proposed by the Consul General at Harbin.	1103
Oct. 12 (54)	*From the Ambassador in China (tel.)* From Harbin: Issuance of authorized statement and request that bank cease flying the U. S. flag. Press comment questioning status of other American enterprises following American disclaimer of jurisdiction.	1103
Nov. 21 (101)	*From the Counselor of Embassy in China (tel.)* Information that the Japanese Consul General at Harbin will take measures to prevent publication in Japanese papers of the attacks connected with the Thriftcor Bank.	1104

SIAM

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

1935 Feb. 25	*From the Siamese Legation* Advice of Siam's acceptance of U. S. draft, presented in June, 1934, of a new article III for the treaty of 1920, and of Siam's willingness that the agreement revising this article should be in the form of a supplementary treaty.	1105
Mar. 13	*To the Siamese Legation* Suggestion that matter of revision of article III be left in abeyance in view of previous delays and of Siam's intention to seek revision of a number of treaties in 1936.	1105
Mar. 16 (8)	*To the Minister in Siam (tel.)* Advice of Department's suggestion that the revision of article III of the treaty of 1920 be held in abeyance; instructions to orally and guardedly reaffirm to the Foreign Office the Department's regret.	1106
Nov. 22	*Memorandum by the Assistant Secretary of State* Discussion with the Siamese Minister in regard to the elimination of article III relating to monopolies and the Department's added suggestion concerning the extension to American nationals of most-favored-nation treatment with regard to land ownership in Siam.	1107
Dec. 2	*Memorandum by the Assistant Secretary of State* Further discussion with the Siamese Minister of proposed revision of the treaty of 1920, and submission of draft of a note (*infra*) for the Siamese Government with regard to the land ownership matter.	1108

SIAM

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

Date and number	Subject	Page
1935 Undated	*Draft of Note to the Siamese Minister* Statement of readiness to enter into negotiations for revision of article III, with observation that the United States would be highly gratified if Siam could extend to American nationals most-favored-nation treatment with regard to land ownership in Siam.	1109
Dec. 9	*Memorandum by the Assistant Secretary of State* Delivery to the Siamese Minister of a suggested draft note (*infra*) to be submitted by his Government in reply to that of the United States.	1110
Undated	*Draft of Note From the Siamese Minister* Acknowledgment of U. S. Government's readiness to enter into treaty negotiations, with an indication of compliance with U. S. wishes in respect to land ownership.	1111

THE FAR EASTERN CRISIS [1]

CHAPTER I: JANUARY 1–APRIL 5, 1935

Resumption of postal services between China and "Manchoukuo"; Japanese military encroachment on Chahar territory; Japanese diplomatic campaign to overcome Chinese objections to policy of "cooperation" with Japan; Finance Minister Kung's report on "grave situation", February 1; China's declaration on Soviet sale of Chinese Eastern Railway to "Manchoukuo", March 16; Japan's withdrawal from League of Nations, March 27; British decision to dispatch technical financial expert to China, March 28; Ambassador Grew's report on Soviet sale of Chinese Eastern Railway to "Manchoukuo", April 5

893.71 Manchuria/77 : Telegram

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

PEIPING, January 1, 1935—noon.
[Received January 1—6 : 22 a. m.]

1. According to the press, an official of the Chinese Postal Administration and the Japanese Assistant Military Attaché at Peiping have announced that ordinary mail service between China and "Manchukuo" will be begun on January 10th and that parcel post and money order services will be inaugurated on February 1st. According to the Chinese statement, these services will be handled by "third parcel post offices" especially set up for that purpose. According to a usually reliable Japanese source however this report is for the purpose of ameliorating Chinese feeling and the services will be handled in the usual routine manner without any special organ. According to a report to [*from?*] both Chinese and Japanese sources, in order to meet Chinese wishes new stamps without the word "Manchukuo" on them will be issued for use on communications sent from "Manchukuo" to China. By the settlement of the postal question three of the allegedly secret clauses oral or written of the Tangku Truce of May 31, 1933,[2] have been fulfilled the other two having been resumption of through passenger traffic on the Peiping-Liaoning Railway and the establishment of Chinese customs houses along the Great Wall. According to a usually reliable Japanese source, only one more important secret clause remains to be fulfilled, namely, the establishment of aerial communication.

[1] Continued from *Foreign Relations*, 1934, vol. III, pp. 1–348; for additional correspondence, see *Foreign Relations*, Japan, 1931–1941, vol. I, pp. 146–151, 239–241, and 277–290.

[2] For text of agreement, see *ibid.*, p. 120.

Although the successful fulfillment of three of the clauses of the Tangku Truce creates an appearance of tranquility in the situation in North China, actually the future of this area is still fraught with uncertainty. Among the causes for this uncertainty are the following factors:

1. There is little reason to believe that the Japanese will be satisfied with the meager advantages which the conclusion of these three questions gives to them or to "Manchukuo".
2. There is little reason to believe that the Japanese military regard the proposal as other than stepping stones toward a substantial control of affairs in North China.
3. Major Tan Takahashi, Japanese Assistant Military Attaché at Nanking has been ordered to replace Lieutenant Colonel Shibayama at Peiping (see page 6 of Legation's despatch 3127 of November 9, 1934 [3]). Takahashi is said by a reliable Japanese to have been primarily responsible for the untoward developments of the Kuramoto [4] affair of last June and to be a reactionary ultra patriotic officer.
4. General Huang Fu plans to go to Nanking within the next few days to assume the post of Minister of the Interior and there is uncertainty as to whether he will return, especially as it is said that the military consider that he has fulfilled his mission in North China and no longer want him here.

GAUSS

893.71 Manchuria/77 : Telegram

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

WASHINGTON, January 4, 1935—6 p. m.

2. Your 1, January 1, noon.

If and when ordinary mail service between China and Manchukuo is begun and parcel post and money order services are inaugurated, please report by radio.

HULL

793.94/6847

The War Department to the Department of State [5]

WASHINGTON, January 7, 1935.

1. Recent reports from Peiping and from consular officers in China and Manchuria indicate that the Chinese have agreed to move the provincial capital from Tientsin to Paotingfu, and that General Yu

[3] *Foreign Relations*, 1934, vol. III, p. 302.

[4] Japanese student interpreter at the Nanking Consulate General, who disappeared in June 1934, but was subsequently found after an apparent attempt to commit suicide.

[5] Copy handed by the Assistant Chief of Staff, G–4, to the Chief of the Division of Far Eastern Affairs on January 7.

Hsueh-chung's provincial troops will be withdrawn south of the Peiping-Tientsin Railway. In effect, this means a withdrawal of National Government control from Peiping and from Tientsin. Further, this action appears to have been taken at the instance of the Japanese, whether as an extension of the demilitarized area of North China, or under some other guise is not apparent. It is also stated that there is no apparent Japanese payment for this concession except a Japanese guarantee that it will not encourage any independence movement in North China hereafter. Another note indicates that Japan will secure the right to extend through traffic on the Peiping-Mukden Railway to the Peiping-Suiyuan line in Inner Mongolia.

2. While the information at hand is very limited, the entire procedure appears to be an extension of Japanese military control in North China to the Peiping-Suiyuan Railway. Mongolia is a possible "jump off" line for a Japanese attack on Russia. For reasons too lengthy for discussion here Japan may choose to launch a serious attack across Mongolia towards Urga and Lake Baikal and thus turn the entire Russian prepared position in the Far East.

3. It is believed that the renunciation of the Washington Naval Treaty [6] brings Japan much nearer a crisis with Russia. Japan cannot risk conflict with any power in the Pacific until her situation vis-à-vis Russia has become stabilized either through a war or by treaty. Therefore, almost continuously during 1933 and 1934 Japan has been consolidating her position in Manchuria, in Mongolia, and in China while she prepared for war against Russia. As Japan's rearmament program nears completion her need for decisive action becomes imperative—(*a*) while she believes she has the advantage, (*b*) to justify her huge war expenditures, and (*c*) to secure her Asiatic continental position before the final termination of the naval treaty brings a real Pacific crisis.

4. One factor to be considered is Russian preparations to resist. Japanese regard a conflict with Russia as inevitable. The Araki [7] group advocate an immediate war before Russia becomes stronger; the older more conservative group does not believe that Russian preparations will increase Russian ability to resist in the same proportion as Japan's power to attack will increase with the completion of the rearmament program. We cannot know when the Japanese rearmament program will be completed, but assuming that 500 tanks have been constructed during the past year Japan should be nearly ready. Japan may expect a quick victory over Russia to make her position

[6] Signed February 6, 1922, *Foreign Relations*, 1922, vol. I, p. 247; for Japan's notice of denunciation of the treaty, see note No. 250, December 29, 1934, *Foreign Relations*, Japan, 1931–1941, vol. I, p. 274.

[7] Gen. Sadao Araki, Japanese Minister of War, 1932–34.

secure by the end of 1936. To delay attacking until after 1935 would probably compel a further postponement until after 1936.

5. This movement into North China, then, must be regarded with the greatest suspicion and as the possible forerunner of a 1935 attack on Russia.

NOTE: By rearmament we include motorization, mechanization and modernization of weapons and organization.

861.77 Chinese Eastern/1369: Telegram

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

TOKYO, January 8, 1935—10 a. m.
[Received January 8—4: 32 a. m.]

3. The Soviet Ambassador [8] told me last night that the press reports of an early settlement of the sale of the Chinese Eastern Railway are unfounded and have been announced from Japanese sources merely to strengthen Hirota's [9] position in the forthcoming sessions of the Diet. Some slight advance has been made in the negotiations but the question of guarantees of payment is still unsettled.

GREW

---

123 Bullitt, William C./179

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

[Extracts]

WASHINGTON, January 8, 1935.

SIR: I have the honor to report that in accordance with the Department's instruction No. 186 of August 28, 1934,[10] I left Moscow on October 10, 1934, to proceed to Washington by way of Siberia and the Far East. . . .

. . . . . .

JAPAN

In Tokyo I had many conversations with leading Japanese, including the Emperor, Hirota, Minister of Foreign Affairs, Tsushima, Vice Minister of Finance, Shigemitsu, Vice Minister of Foreign Affairs, Fukai, of the Bank of Japan, and many other business men and bankers. All these conversations were so polite and formal in nature that they contained nothing of interest.

---

[8] Constantin Yurenev.
[9] Koki Hirota, Japanese Minister for Foreign Affairs.
[10] Not printed.

The Emperor talked vaguely about his love for peace and said that he welcomed greatly such visits as mine as he felt that mutual understanding was the basis for mutual confidence and peace, and that he hoped that as many Americans as possible would visit Japan. The Emperor's facial "tic" is so severe, his hand clasp so weak, and his difficulty in speaking so great that he at first makes the impression of being a weakling; but when he listens he has a keen and understanding eye and a thoroughly alive and intelligent smile.

Hirota made one statement of some interest. He remarked that the Russians had been afraid of a Japanese attack. I replied that they had been but that they were no longer and that this was in part due to the fact that he was regarded as an advocate of peace and understanding. He replied that he was most certainly an advocate of peace and understanding, that he was convinced that the Chinese Eastern Railway negotiations would come to a successful conclusion and that war between Russia and Japan was out of the question. He said that he desired nothing but peace and peaceful development and added that he had the full support of the Emperor for his policy. He then said, "You know the unique position of our Emperor, his authority is so complete and absolute that no one can stand against his will. I have direct personal contact with the Emperor. Invariably before I make a speech in the Diet I show my speech to the Emperor and he approves it in advance. I know, therefore, that I am secure and that no one can do anything against me no matter how much he may wish to. I do not have to go through intermediaries but see the Emperor personally whenever I need to consult him."

The heads of Mitsui, Mitsubishi, the Bank of Japan and various other financial and business leaders all said that the present financial policy of selling bonds to cover current deficits could, in their opinion, be continued for at least two years longer.

Tsushima and Fukai both expressed the hope that the United States would cease its silver purchase policy, alleging that the rise in the price of silver was dislocating their plans for financing the new undertakings in "Manchukuo" which is still on the silver standard.

In Tokyo I had one long and rather intimate conversation with the Soviet Ambassador to Japan, Mr. Constantin Yurenev. He expressed the opinion that the negotiations for the sale of the Chinese Eastern Railway would reach a successful conclusion in the near future. He added that he anticipated no serious difficulties in regard to minor matters which would normally be negotiated during the next year. He expressed the opinion that the Japanese Government had given up all idea that it could now attack Siberia. He said that the Japanese not only were most apprehensive because of the superiority of the Russian air force but also that their artillery and communication serv-

792998—53——8

ices were not up to the mark. He said that the Japanese were making every effort to have these services in perfect working order by the Spring of 1936 and that he anticipated no threat of war from Japan until that time.

Yurenev then said that the Japanese were thinking more about war with the United States at the present time than they were about war with the Soviet Union. I suggested that this thought was consonant with the national approval of hara-kiri. He said that I must not underestimate the Japanese fleet, that the Japanese believed today that their fleet was actually stronger than our fleet. He asserted that the Japanese were convinced that ship for ship, man for man, and officer for officer, the quality of their fleet was so superior to the quality of ours that inferiority in numbers would count for little. He added that unquestionably the sailors and officers of the Japanese merchant marine were far superior to ours and that in case of war the personnel of the merchant marine would become extremely important.

In this connection it may be of some interest to note that several times in China present and former members of the Government made remarks to me which seemed to indicate that in many quarters in the Far East the belief prevails that the Japanese Fleet today is superior to our own.

China

. . . . . .

I saw also Doctor W. W. Yen, Chinese Ambassador to Moscow, in Peiping. Doctor Yen informed me that he would not return to the Embassy at Moscow to which he is now accredited. He expressed extreme fear with regard to the activities of the Japanese. He said that he believed that the Japanese would advance further into Inner Mongolia and that unless Chiang Kai-shek should concede everything that the Japanese wished in the provinces north of the Yellow River and Shantung, the Japanese would occupy those provinces. He added that in case of war between Japan and the Soviet Union, the occupation of China as far south as the Yellow River by the Japanese would be inevitable. He said the line of the Yellow River could be held by 50,000 Japanese whereas the line of the Great Wall would require many more. He expressed the belief that Chiang Kai-shek could not continue to hold out much longer against the Japanese and said that he believed that Chiang Kai-shek might soon realize that he could not hope for help from any western powers and that he must give in and accept Japanese tutelage for China. Doctor Yen said that, in his opinion, this outcome was inevitable unless England and the United States could agree on a joint policy with regard to China.

On November 18, I flew from Peiping to Nanking. On the date of my arrival I had a long conversation with Mr. Wang Ching Wei,

President of the Executive Yuan and Acting Minister of Foreign Affairs, who seemed especially interested in conditions in the Soviet Union. I told him that the Russian Government was entirely secure, that the Russian Army had been built up to such strength that the Soviet Union no longer feared attack by Japan and asked him if there had been any improvement in relations between China and the Soviet Union. He replied that he could see no immediate basis for an improvement. He said that the Chinese Government had definite evidence that the Soviet Government, or at least the Third International, was supplying money to the Chinese communists by way of Shanghai and Hong Kong. He added that the behavior of the Russians in Sinkiang had led the Chinese Government to believe that the Soviet Government was contemplating an attempt to establish a Communist Government in Sinkiang, that the Soviet Government had interfered repeatedly in the internal administration of Sinkiang, and that the cessation of all Soviet activities in Sinkiang was a *sine qua non* for improvement in relations with the Soviet Union. He added that the Soviet Government repeatedly had broken agreements with the Chinese Government and that there was no confidence in China in Soviet good faith. He said finally that it was impossible for China to make any move whatever in the direction of improvement of relations with the Soviet Union because the Japanese had absolutely refused to have China make any such move and had threatened immediate military action if China should move toward a *rapprochement* with the Soviet Union.

. . . . . .

Respectfully yours, WILLIAM C. BULLITT

793.94/6863

The Counselor of Legation in China (Peck) to the Chargé in China (Gauss)[11]

L–561 Diplomatic NANKING, January 9, 1935.

SIR: I have the honor to state that in the course of a conversation with a prominent Chinese official, who exacted a promise that his name would not be mentioned, the informant made sundry observations regarding Japan's political program in China, which may be summarized as follows:

The recent termination of the Communist bandit suppression campaign in Kiangsi left the National Government in a comparatively strong position, with prospects of bringing the entire country under its effective control brighter than they have been for a long time past.

[11] Copy transmitted to the Department by the Chargé in his despatch No. 3261, January 15; received February 9.

This has not pleased the Japanese Government, since it is the desire of that Government that China shall remain disunited and weak. Proofs of this desire on the part of the Japanese Government have been numerous. For example, a military attaché to the Japanese Legation very recently frankly told an official of the Chinese Government that munitions were being supplied to the Kwangsi militarists and to certain disaffected elements in the Province of Hopei (at Tientsin) from Japanese sources. The Japanese informant said that whether with, or without, the assistance of the Chinese Government, the time had come for Japan to carry out the "Tanaka Plan",[12] and that if General Chiang Kai-shek, or the National Government, opposed Japan, the latter would assist those factions in China insubordinate to the Government.

The Chinese official with whom I was conversing remarked that it was perfectly evident that Japan wishes to achieve domination over China, possibly by dividing the country into three portions, i. e. creating independent states to the north and to the south of the Yangtze Valley, or by permitting "Manchukuo" to expand into North China. The domination of China, the informant pointed out, was but a step toward the attainment of Japan's intention to obtain complete control of the trade of the Orient and, finally, the mastery of the Pacific Ocean.

The informant remarked that the present course of events threatened to play into the hands of Japan. He said that the Communist forces ejected from Kiangsi were seeking to entrench themselves in the Province of Szechuan and if they succeeded in taking root there they might create a Communist state in West China which would be a threat to the peace and order of British possessions in India and might readily effect junction with Russian Soviet territory. In the face of this danger, he added, Japan would probably offer to send a military force to suppress the incipient state and this offer might be accepted, at least by Great Britain. The sending of such a military expedition would be utilized by Japan as an occasion for consolidating itself militarily in China. The informant said that the Japanese openly state that if Japan became involved in war with the Soviet Union, Great Britain would assist Japan, and if with the United States, Great Britain would remain neutral.

I asked the informant whether he could give me any information regarding a society said to be in existence called the "New China Economic Reconstruction Society", composed of Chinese who believe in economic cooperation with Japan. The informant said that he could not confirm the exact name in Chinese of the organization in question, but he knew of its existence. He said the tendency of its members was

[12] A plan of conquest, allegedly presented by Gen. Baron Giichi Tanaka, as Japanese Prime Minister, to the Emperor in 1927.

to accept at face value the statements of the Japanese that if China would collaborate with Japan in the economic development of China, then Japan and China would constitute a bloc which would be able to expel the white races from eastern areas.

Respectfully yours, WILLYS R. PECK

893.71 Manchuria/78 : Telegram

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

PEIPING, January 10, 1935—2 p. m.
[Received January 10—5 : 33 a. m.]

12. Department's telegram 2, January 4, 6 p. m. Local Foreign Commissioner of Chinese Posts states that ordinary mail service between China and "Manchukuo" began today. Ordinary Chinese postage stamps are being used in China. Consul General at Harbin [13] reports that special postage stamps bearing no personal image nor name of country but only the amount, the two Chinese characters meaning Postal Administration, and an orchid, emblem now used by Pu Yi,[14] are on sale for mail matter for transmission to China. No parcel post or money order service yet established.

GAUSS

861.77 Chinese Eastern/1372 : Telegram

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

Moscow, January 16, 1935—11 a. m.
[Received January 16—9 : 30 a. m.]

19. Japanese Chargé d'Affaires informs me that he has received long and favorable telegraphic instructions from his Government relative to the Chinese Eastern Railway negotiations. He thinks chances are excellent that sale will be consummated within 6 weeks.

In reply to a query he categorically denied that there was any substance to current rumors that a nonaggression pact was also probable.

WILEY

894.20/133

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

No. 3279 PEIPING, January 18, 1935.
[Received February 9.]

SIR: I have the honor to report that a conference of a number of important Japanese military officers, which was held on January 4 and

[13] Walter A. Adams.
[14] "Emperor Kang-teh of Manchoutikuo."

5 at Dairen, has created some uneasiness in China because of the character of the attending officers and their views with regard to China as reported in the press.

These officers appear to be definitely of the most reactionary type, including Majors-General Doihara and Itagaki, both of whom are regarded as having been leaders in the plotting and carrying out of the seizure of Manchuria, as well as Lieutenant-Colonel Kagesa, Assistant Military Attaché stationed at Shanghai, who has made during recent months a number of inflammatory statements expressing dissatisfaction with the attitude of China toward Japan. The significance of a meeting of this character may be the greater because of the fact that Lieutenant-Colonel Shibayama, who holds relatively moderate views and who at the time of the conference was still Assistant Military Attaché stationed at Peiping and chief negotiator with the Chinese over problems affecting North China, did not attend the conference, although it would seem that he normally ought to have done so. Moreover, the conference was held within 10 days after the arrival at Hsinking of General Minami (who was Minister of War at the time of the Manchurian incident), for the purpose of taking over the duties of Commander-in-Chief of the Kwantung Army and Ambassador to "Manchukuo".

According to the press (including a Japanese newspaper published at Tientsin and subsidized by the Japanese military), these officers expressed strong dissatisfaction with General Chiang Kai-shek and with the failure of the Chinese to carry out certain terms of the Tangku Truce of May 31, 1933. This is by no means the first time that Japanese military officers have expressed dissatisfaction with regard to the "sincerity" of General Chiang Kai-shek. However, whether the expression of dissatisfaction at this conference has any especial importance, it is difficult to say. It may merely have been made to intimidate the Chinese; or it might have been a part of the policy advocated by at least a section of the Japanese military, namely, a policy of weakening the position of General Chiang Kai-shek in order to effect a more rapid disintegration of China.

With regard to the charge of Chinese failure to carry out the pledges of the Tangku Truce, it was understood that the principal promises had finally been fulfilled, with the exception of the establishment of aerial communication; but the Japanese press itemizes the unfulfilled pledges, in addition to aerial communication, as direct telegraph and telephone service, through railway-freight service, and a customs agreement: The questions of direct telegraph and telephone service and of through railway-freight service do not appear to be of vital

importance. There exists, for example, telegraph service between Peiping and Mukden by way of Chefoo while telegrams addressed to Harbin from Peiping go by radio from Tientsin. The direct telephone service which existed prior to the Manchurian incident was not satisfactory. The establishment last July of through passenger train service between Mukden and Peiping would seem to reduce considerably the importance of any question of a through freight service between those two cities.

The reference to a customs agreement is difficult to understand. Chinese customs houses were established last summer along the Great Wall, and revenue is being collected at them only on products which did not originate in Manchuria. It is possible that the Japanese military may refer to certain technical questions, or to "a closer cooperation" for the alleged purpose of making it unnecessary for travelers to undergo two examinations, one at "Manchukuo" stations north of the Great Wall and one at Chinese stations south of it. It is also possible that the question of customs is related to some larger problem of the Chinese customs tariff which, it is understood, is now under revision. When the Chinese official in charge of Chinese customs houses along the Great Wall was questioned a few days ago in this regard, he stated that he did not know to what the Japanese military referred.

Respectfully yours, C. E. GAUSS

893.01 Manchuria/1213 : Telegram

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

TOKYO, January 19, 1935—noon.
[Received January 19—5 : 06 a. m.]

10. The Military Attaché reports that, according to information which he obtained confidentially from the Japanese Army, a small detachment from the Kwantung army is operating near Tatan, Jehol, about 130 miles south of Taerhhao (Chahar) against bandit troops. These bandits are said to be the remains of Chang Hsueh-liang's troops which did not retreat south of the Wall but took up their residence in Western Jehol and are now a nuisance and menace to peaceful population in that region. The Japanese intend to drive them out of Jehol. The military authorities characterize the movement as being of no importance, and as having no other purpose than that stated.

GREW

793.94/6831 : Telegram

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

PEIPING, January 19, 1935—1 p. m.
[Received January 19—5 : 20 a. m.]

30. The Consul General at Mukden [15] has reported in telegram of January 18, 10 a. m., that he has been informed by Mukden military authorities that an ultimatum has been issued through the Kalgan Military Mission to Chinese forces in Western Jehol Province where they have been since the occupation of Jehol Province to withdraw into Chinese territory and that Japanese and "Manchukuo" troops have been sent to that area as reenforcements.

From Chinese official source at Peiping the Legation learns that some 4 days ago a Japanese ultimatum was sent to a Chinese general in command of 2,000 troops to withdraw from a place (name unknown) southeast of Dolonor, where he has been stationed since the seizure of Jehol; that whether this area is a part of Jehol or Chahar is a question; that the Chinese general returned the ultimatum to the sender, a local Japanese commander, stating that such a message should go through the proper channels; that the message was then delivered to Chairman of Chahar Province, who informed the Japanese that it should go to the National Government; and that the Japanese Assistant Military Attaché will soon take the matter up with General Ho Ying-chin, chairman of the Peiping branch of the military council. This Chinese source is apprehensive that an incident of considerable proportions may develop if and when the Chinese troops withdraw.

It is possible that this incident is the beginning of efforts of Japanese military to define the entire Jehol-Chahar border.

GAUSS

741.9411/221 : Telegram

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

TOKYO, January 21, 1935—10 a. m.
[Received 11 : 52 p. m.]

11. The Japanese press has again been featuring rumors to the effect that the Anglo-Japanese alliance, or something akin to it, is to be revived in the near future. I learn that the British Ambassador yesterday told the local correspondent of the *New York Times* [16] that there was not a word of truth in these rumors, so far as the British Embassy was aware, and he said that these rumors were placing him

[15] Joseph W. Ballantine.
[16] Hugh Byas.

(the Ambassador) in a most embarrassing position, as he had been assuring the American Ambassador of his own, and he was convinced of his Government's, desire to work in complete frankness with the Americans; that these rumors made it appear that he had been lying, and he urged Mr. Byas not to report them to New York because they had no basis in fact.

GREW

793.94/6832 : Telegram

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

PEIPING, January 22, 1935—4 p. m.
[Received January 22—7 : 26 a. m.]

32. My 30, January 19, 1 p. m. The Legation is reliably informed that the question is being peacefully settled by the withdrawal of the Chinese forces concerned in accordance with the wishes of the Japanese military. The Chinese authorities are apparently endeavoring to minimize the importance in order to avoid criticism. As a result the *de facto* border of "Manchukuo" now seems definitely to be that part of the Great Wall which runs from south to north in southeast Chahar Province.

GAUSS

861.77 Chinese Eastern/1374 : Telegram

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

TOKYO, January 22, 1935—6 p. m.
[Received January 22—7 : 52 a. m.]

14. The Soviet Embassy has confirmed reports that an agreement for the sale of the Chinese Eastern Railway was reached last night and has stated that the press reports of the terms thereof are substantially correct. The agreement is subject to confirmation by the governments concerned and certain minor details remain to be adjusted. It appears, however, that the sale will now [be] definitely consummated.

GREW

894.032/138

Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs [17]

[WASHINGTON,] January 22, 1935.

The speech reviewing Japan's foreign relations delivered in the Diet today by the Minister for Foreign Affairs gives marked indica-

[17] Submitted to the Secretary of State on January 22 by the Chief of the Division of Far Eastern Affairs.

tion of having been addressed more to the world at large than to the Japanese people and having been formulated with an eye primarily on creating a certain desired effect on overseas opinion. It contains at the same time a firm restatement of Japanese foreign policy ("The road for Japan to take has long been chosen.") and a plea for the restitution to Japan of the good-will of other nations. It may thus in effect be regarded as a declaration of desire to work toward the resumption of Japan's former relations with its neighbors, but on a basis acceptable to Japan.

The speech may be analyzed as follows:

1. At the forefront, there is the effusive reference to the forthcoming visit to Japan of the "Emperor of Manchukuo". In times not marked by stress, it would be usual for the Minister for Foreign Affairs to make some felicitous reference to the contemplated visit to Japan of a foreign monarch; but, in view of the existing situation in the Far East, the reference is obviously intended to have a definite significance. It may be surmised that the portion of the speech dealing with "Manchukuo" had a two-fold purpose: one, to allay any suspicion likely to arise in Japanese nationalistic quarters of the existence of any divergence of opinion between the military element and the civil government, and, two, to reaffirm to foreign governments Japan's determination to maintain the situation which it has brought about in Manchuria.

2. The portion devoted to naval limitation is a restatement of previous Japanese declarations and contains nothing new; but even as a restatement it usefully serves Japan's purposes, for the reason that it operates to keep alive the Japanese thesis in regard to "security", "non-aggression" and "reduction of offensive categories" which has undeniably made an impression upon the unthinking both in this country and in Great Britain.

3. The reference to relations with the United States is brief, but it is of distinct interest to note that Mr. Hirota has, by stating that "there exists no question between the two countries which is intrinsically difficult of amicable solution", sought to express assent to the view set forth in the Secretary's reply [18] to Mr. Hirota's personal message of February last,[19] that "there are in fact no questions lying between our two countries which if they be viewed in proper perspective in both countries can with any warrant be regarded as not readily susceptible to adjustment by pacific processes".

4. As predicted in press despatches from Tokyo, Mr. Hirota's references to relations with the Soviet Union are couched in substantially more friendly language than was the case in his last two addresses to

[18] *Foreign Relations*, Japan, 1931–1941, vol. I, p. 128.
[19] *Ibid.*, p. 127.

the Diet. It will be noticed that Mr. Hirota concludes an apparently optimistic forecast of developments in the relations between the two countries with a request which is not of a reassuring character—that the construction by the Soviets of fortifications along the Manchurian frontier cease.

5. Considerable space was devoted by Mr. Hirota to Japanese relations with China. The language which he used in urging China to collaborate with Japan in maintaining peace in the Far East is unobjectionable, but there is nothing in the statement which rules out the plausibility of the prediction made by the Japanese press that he would suggest to China cooperation with a view to eliminating western political influence from the Far East.

Conclusion:

The speech does not offer any basis to suppose that there has occurred any substantial change in Japan's foreign policy. It contains material which may suggest development of an unfavorable character (Sino-Japanese relations) as well as of a favorable character (Soviet-Japanese relations). The speech does not appear to warrant any relaxation in the attitude of caution and reserve which has been assumed by this Government in the conduct of relations with the Japanese Government.

793.94/6833 : Telegram

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

PEIPING, January 24, 1935—2 p. m.
[Received January 24—6 : 15 a. m.]

34. Legation's 32, January 22, 4 p. m. According to Chinese official statement, either during or after withdrawal of Chinese troops from disputed area, in accordance with the demand of the Japanese military, Japanese planes flew on January 23 over the area in dispute and dropped a few bombs at a place where there were no Chinese troops causing no casualties. An official of the Japanese Legation states that Chinese soldiers attacked on January 22 some Japanese soldiers at a place southeast of Kuyuan and just east of the Great Wall causing minor casualties but that no information about occurrences of January 23 is yet available. However, Japanese Assistant Military Attaché states that Japanese military occupied Kuyuan January 23 a place which has never been officially claimed as within "Manchukuo" boundary and that two Japanese have been killed so far and six injured.

In view of conflicting and inadequate information, it is too soon to determine whether Japanese action is a prelude to additional enlargement of "Manchukuo" at the expense of Chahar or is an inde-

pendent action of local Japanese military relating only to the disputed area lying between the Great Wall and the Jehol-Chahar boundary. The Legation, however, inclines toward the latter view.

GAUSS

793.94/6909

The Counselor of Legation in China (Peck) to the Chargé in China (Gauss) [20]

L–578 Diplomatic NANKING, January 24, 1935.

SIR: I have the honor to refer to this office's confidential despatch No. L–575 of January 23, 1935,[21] on the subject of Japanese policy vis-à-vis China and mentioning that Mr. Y. Suma, First Secretary of the Japanese Legation resident in Nanking, had called on General Chiang Kai-shek on January 21 and on General Huang Fu on January 22 concerning current Sino-Japanese issues.

A foreign newspaper correspondent stationed in Nanking called at this office on the afternoon of January 23 to describe two interviews he had had with Mr. Suma following the latter's conversations with high leaders of the Chinese Government, the substance of Mr. Suma's remarks being as follows:

Mr. Suma stated that he had talked with Dr. Wang Ching-wei as well as with General Chiang Kai-shek, General Huang Fu and other leaders, and that the conversations with the first three had each lasted from two to four hours. Mr. Suma did not repeat what he had said to the individual officials named, but he made to the newspaper correspondent a careful and lengthy statement, which appeared to have been premeditated and was apparently designed to convey the general tenor of his official discourses.

Mr. Suma said that it was true that various "minor questions" such as the establishment of through traffic between Peiping and Mukden, the resumption of postal relations, and the arrangement for custom houses along the Great Wall had been settled by negotiations, but the fundamental issues between China and Japan which had brought about the Tangku Truce of May 1933 remained unchanged. By an involved process of reasoning Mr. Suma argued that the Tangku Truce was the result of the attitude of the Chinese toward Japan. That is, the truce had been sought by the Chinese as a means of satisfying the Japanese military sufficiently to make them willing to refrain from occupying North China, and the prior necessity for such occupation, as envisaged by the Japanese, had arisen because of the general

[20] Copy transmitted to the Department by the Counselor of Legation in his despatch of the same date; received March 12.

[21] Not printed.

Chinese attitude toward Japan. In other words the truce had failed to alter the Chinese attitude and the Chinese persisted in their attitude of resistance and antagonism toward Japan. The Acting Minister for Foreign Affairs, for example, "talked negotiation on the one hand" and advocated resistance on the other. (Parenthetically, it is of passing interest in this connection that Dr. Wang in his recently published work *China's Problems and Their Solution* does advocate resistance against the Japanese.)

What he, Mr. Suma, was now attempting to accomplish was to persuade the leaders of the Chinese Government to make up their minds, formulate a definite Chinese policy toward Japan and then to adhere to that policy. The trouble was that China really had no policy. China should either embark upon a policy of cooperation with Japan, and announce it, or embark upon a policy of resisting the Japanese and say so. What China's ultimate destiny is, in respect to this question of the relationship between the two nations, Mr. Suma observed, should be obvious; and he said that both the Generalissimo and General Huang Fu realized that eventually China must cooperate with Japan. As for other leaders of the Government, such as the Ministers of Finance and of Industries, Mr. Suma said he had pointed out to them that embarrassments would probably arise if they did not accept what is China's destiny and cut their cloth accordingly.

In emphasizing these considerations Mr. Suma made it clear that in his opinion there could be no question but that China was destined to work with Japan and that if the Chinese Government did not adapt itself without undue delay to the workings of fate, it was very likely that circumstances would conspire to produce complications of a serious nature. He referred more than once to the possibility that failure to solve this fundamental issue would automatically occasion some regrettable "incident" between the two nations.

By way of comment on what precedes, I have the honor to recall that the Japanese Government has made no secret of its view of what should be the relationship of China to Japan. There is enclosed a copy of a press despatch bearing the date line Tokyo, May 23, 1934, in which occurs the following illuminating paragraph:

"Mr. Hirota is reported to have requested Mr. Ariyoshi [22] to press Chinese leaders for their recognition of Japan's Oriental policy, which, the Foreign Minister said, is based on the mutual existence of Japan and China. Japan is willing to assist China toward her unification and prosperity, if China will understand Japan's responsibility for Oriental peace. Furthermore, Mr. Ariyoshi was requested to explain to Chinese leaders that Japan must oppose any action by any third country which may harm Japanese-Chinese relations."

[22] Akira Ariyoshi, Japanese Minister in China.

Presumably this press despatch received the approval of the Japanese censor.

It has been impossible, as yet, to learn what sort of response Mr. Suma has received to the representations made by him to the Chinese leaders.

Respectfully yours, WILLYS R. PECK

893.20/515 : Telegram

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

PEIPING, January 25, 1935—noon.
[Received January 25—4 a. m.]

35. The Military Attaché informs me that at a recent conversation in Shanghai General Chiang Kai-shek urged that an American Army Air Force officer from the active list be assigned as aviation adviser to China to take charge of the Hangchow aviation school in succession to Jouett [23] whose contract expires in June and who is not disposed to renew it. The Military Attaché informed General Chiang that he is certain that the American Government cannot entertain any such proposal.

The Legation has reason to believe that an effort may be made through Jouett or others to invite some fairly high ranking officer of the United States Army Air Force now on the active list to retire and accept appointment as Jouett's successor.

GAUSS

793.94/6836 : Telegram

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

NANKING, January 25, 1935—5 p. m.
[Received January 25—1 : 30 p. m.]

12. 1. Information [that] is believed to be reliable has been obtained that Chiang Kai-shek has been persuaded by the Japanese to adopt definite policy of "cooperating" with Japan. This would indicate that reports of Japanese offers or demands for some kind of "pact" with China are basically true. Report continues relative to impossibility of expecting concrete assistance from the League of Nations and other countries including the United States, Chiang has decided to accept Japanese loan to be used for military and other purposes;[24] that important changes in the Ministry of Foreign Affairs and possibly other departments of Chinese Government may result; and that Chinese Government contemplates as part of Chiang's program action

[23] Col. John H. Jouett, U. S. Army Reserve.
[24] See pp. 526 ff.

to take currency measures which may possibly involve a correlation of Chinese currency with currency system of Japan.

2. According to this report Chiang's decision to accept Japanese financial assistance was announced to group of Chinese bankers at recent meeting in Shanghai during which Chiang pointed out that if China undertook war with Japan China would certainly meet with defeats during first 3 months even though able to continue resistance thereafter and that the Chinese Government which had imbued the people of China with a certain sense of its leadership, might be unable to survive this strain and that since Japan was the only country willing and able to give needed financial assistance only feasible policy was to accept it.

3. Same informant stated that Chiang has for some time been conversing with Japanese leaders through unknown intermediary possibly Wang I-tang; that recently through this intermediary Chiang was asked by Japanese spokesman whether in the event of war between Japan and Russia China would side with Japan and in that case whether China would be willing to organize three model divisions with Japanese advisers, instructors and equipment, that Chiang gave diplomatic negative to this proposal and was subsequently informed that Japan could not accept responsibility for anything which might happen in North China.

4. Also understood that T. V. Soong [25] was actually planning journey to United States but that it was canceled because of fear Japanese might think his trip for purpose of obtaining American loan and therefore "treacherous" in face of discussions of Japanese offers or demands.

Repeated to the Department.

PECK

793.94/6837 : Telegram

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

PEIPING, January 25, 1935—5 p.m.
[Received January 25—1 : 40 p.m.]

36. Legation's telegram No. 34, January 24, 2 p.m. Senior Secretary of Japanese Legation states that action reported as taking place on January 22 occurred on January 23 and was only important action on that day; that no information has been received with regard to press reports of bombing of Tushihkou, which lies within the Great Wall and south of Kuyuan; and that it is expected Chinese and Japanese military will confer for a settlement of the situation. All sources now claim that Kuyuan was not occupied. According to Chinese official sources, Japanese planes dropped 7 bombs January 24 on Tushihkou

[25] Former Chinese Minister of Finance.

causing casualties and destroying 50 houses. Assistant Japanese Military Attaché is reported to have said that this bombing has no significance.

It still appears that military action will presumably spread, but if a conference is inevitable it is not unlikely that the Japanese may make demands which will further affect Chinese sovereignty, such as a possible demand for establishment of a demilitarized zone along the Chahar-Jehol boundary. The recent military activity may also be made use of to strengthen the Japanese diplomatically vis-à-vis China.

GAUSS

793.94/6839 : Telegram

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

NANKING, January 26, 1935—noon.
[Received January 26—8 : 30 a. m.]

13. My January 25, 5 p. m. paragraphs 2 and 4.

(1) The report which I quoted that Chiang announced to the Chinese bankers in Shanghai that he had decided to accept financial assistance from Japanese sources was heard Shanghai January 24 and I am informed that its credibility is regarded as doubtful by certain persons apparently qualified to judge. I will continue my attempts here to verify the report.

(2) I am reliably informed from Shanghai that the Federal Reserve Bank made direct to the Central Bank of China [refusal?] of a loan and expressed opinion that some representative other than T. V. Soong should go to the United States to negotiate. Chinese rumor in Nanking is that Soong decided not to go to the United States to negotiate financial assistance because he feared he would not be *persona grata* owing to the divergence of wheat, cotton credit proceeds from constructive to military uses.

(3) It would be most helpful to this office to receive confidential information regarding any discussion relating to financial transactions such as referred to above.

PECK

793.94/6838 : Telegram

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

NANKING, January 26, 1935—1 p. m.
[Received January 26—8 : 30 a. m.]

14. A report from apparently reliable unofficial source states that on January 23 the Minister of Foreign Affairs informed a meeting of the Central Political Council that he had received a telegram direct

from the Japanese Minister for Foreign Affairs announcing the desire of the latter to visit Nanking; also the Japanese Minister to China in a recent interview proposed an offensive and defensive alliance between China and Japan. The meeting decided to study both matters. I am endeavoring to confirm this report.

2. Report that an alliance had been proposed as stated was first given me by the French Minister on January 5 who received it in Shanghai. Our subsequent investigations led us to regard it as unreliable but this independent confirmation lends some credibility. I will continue attempts at verification.

PECK

893.20/515 : Telegram

The Secretary of State to the Chargé in China (Gauss)[26]

WASHINGTON, January 26, 1935—2 p. m.

25. Your 35, January 25, noon. Please send a copy to Peck and, referring to last paragraph, instruct Peck to communicate orally, informally and most tactfully but clearly to General Chiang in confidence the view that an invitation by the Chinese Government to any officer of the United States Army on the active list to accept appointment in the service of the Chinese Government, intended toward or leading to the "lifting" of such officer from service of the American Government, would be regarded with definite displeasure by this Government. Peck should also point out by way of amplification and explanation that in American official circles it is felt that action on the part of the Chinese or of the American or of both Governments tending to give the impression that the American Government is inciting the Chinese Government to military preparedness or is assisting that Government in its own program of preparedness or is attempting to create special bonds between the military forces of the two countries would have a net effect disadvantageous to each and to both countries.

HULL

793.94/6840 : Telegram

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

NANKING, January 28, 1935—9 a. m.
[Received January 28—7:40 a. m.]

16. My 12, January 25, 5 p. m.

1. On January 26, 5 p. m., Mrs. Peck and I paid social call on the wife of General Chiang Kai-shek and in reply to questions she confirmed that an offensive and defensive alliance has recently been pro-

[26] This telegram was approved by the Chief of Staff, United States Army.

posed to the Chinese Government by the Japanese Government but she was not definite in regard to the channel employed. She said the offer was rejected on the ground that until Manchuria is restored China cannot trust Japan. An offer to supply Japanese military advisers was rejected at the same time.

2. Madam Chiang neither confirmed nor denied reported Japanese offer of financial assistance.

3. She confirmed report that the Japanese Minister for Foreign Affairs had confidentially communicated to the Chinese authorities his desire to visit Nanking in person but said she understood this project had to be abandoned owing to complications caused by premature publicity.

4. The tenor of replies made by Madam Chiang strongly implied that all offers of assistance including financial had been refused by her husband but certain statements resembled so closely those said to have been made to the Chinese bankers (see my January 25, 5 p. m., paragraph 2, for brief summary) as to lend credibility to the report of that interview. For example, she said it is commonly reported that Japan has 14 divisions of troops which could be utilized against China, or about 280,000 men; 4 divisions are in Manchuria while China has an equal number of effective troops; thus China would probably be defeated at the outset but would be able to continue the war because Japan would be hampered by disproportionate expense of operating away from base in an immense territory and by the danger inherent in sending its entire effective force to China. She pointed out that Manchuria is not yet subdued after 3 years' effort.

PECK

793.94/6842 : Telegram

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

PEIPING, January 28, 1935—1 p. m.
[Received January 28—9 : 35 a. m.]

40. Reference Peck's telegrams to Department numbers 12, 13 and 14 of January 25, 5 p. m., January 26, noon, and January 26, 1 p. m., trustworthy Chinese sources of information at Peiping express conviction that Sino-Japanese negotiations are now in progress but not yet concluded for some sort of pact or understanding. One of these sources states definitely that the proposals included provisions for cooperation between China and Japan, noninterference of third parties in Sino-Japanese relations and in China's internal affairs, Chinese territorial integrity, and a large loan from Japan to China.

2. There is a suggestion that movement of Japanese naval vessels to South China is taking place in preparation for any necessary intimi-

dation of the Southwest to suppress possible opposition to a Sino-Japanese pact. Legation is taking special care to verify this report.

3. United Press report from Tokyo dated January 19 in Shanghai paper, which has just reached Legation, states that it is understood that "the Japanese Foreign Office is desirous, should a proper opportunity present itself, to conclude with China a treaty for preservation of territorial and administrative integrity".

4. Peck reports in despatch 578 of January 24 to Legation that Suma of Japanese Legation at Nanking informed foreign newspaper correspondent January 23, following long conversations with Chiang Kai-shek and Huang Fu, that Suma was trying to persuade Chinese leaders to formulate a Chinese policy toward Japan, that China was destined to work with Japan, and that, if China delayed too long in adapting herself to the workings of fate, some regrettable incident between the two nations would automatically result.

The Legation will continue its efforts to obtain information on this subject.

Legation is informing Tokyo briefly by telegraph and mailing copies of Nanking's messages.

GAUSS

793.94/6841 : Telegram

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

NANKING, January 28, 1935—3 p. m.
[Received January 28—9 : 50 a. m.]

18. 1. On January 28, 11 a. m., I called on the Acting Minister for Foreign Affairs in pursuance of a standing invitation from him and questioned him in regard to recent reports of Japanese diplomatic activities. In my January 25, 5 p. m., I transmitted a statement made by an official of the Ministry of Finance as recounted to me by an American newspaper correspondent. My January 26, 1 p. m., paragraph (1) was based on statement made by a member of the Central Political Council as recounted to me by a Chinese newspaper correspondent. My Harbin [*My January 28, 9 a. m.?*] reported informal statements by Madame Chiang. I regret that the general result of these items is to leave it in doubt whether such steps have actually been taken by the Japanese to draw the two countries closer together but an explanation of apparent conflicts is doubtless to be found in the practice of the Japanese Army to bring pressure to bear in many forms and through many channels simultaneously. I shall continue to explore other sources of information.

2. The Minister for Foreign Affairs denied that a proposal for an offensive and defensive alliance had been made to him either formally

or informally or even a proposal for a nonaggression pact although he had received information that latter was under consideration by the Japanese Government.

3. He said his Government is investigating in countries the possibility of making a large loan but he denied that any affirmative steps had been taken toward concluding a Japanese loan.

4. He said that on many occasions the Japanese had pointed to the foreign advisers of many nationalities engaged by the Chinese Government and had not [*now?*] pressed for the employment of Japanese advisers civil and military to which the Chinese had replied that this must await restoration of friendly attitude to Chinese-Japanese relations.

5. The Minister for Foreign Affairs said that Hirota had informed the Chinese Minister in Tokyo of his desire to draw near China but the protectorate appeared to have been dropped.

6. The interview ended with a cordial assurance from the Minister for Foreign Affairs that if any change occurred in Chinese-Japanese relations he would inform me.

PECK

893.20/517 : Telegram

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

PEIPING, January 28, 1935—4 p. m.
[Received January 28—10 : 55 a. m.]

41. Reference Department's 25 of January 26, 2 p. m. The Military Attaché states that General Chiang made no mention of any proposal to "lift" an American Army officer through the retired list to the position in China. This information came from Jouett and did not indicate that Chiang was cognizant of any such suggestion.

In view of the reports of Japanese pressure on Chiang looking toward a Sino-Japanese understanding or pact, it seems to the Legation that as the Military Attaché has already definitely informed Chiang that the services of an American Army officer cannot be made available to the Chinese Government, the emphasis on the American attitude contemplated by the Department's instruction would serve no purpose other perhaps than as an additional argument to encourage or persuade Chiang to the acceptance of Japanese demands or proposals.

Would it not be possible for the War Department to forestall acceptance of any such offer by officers on the active or retired list?

I am withholding instructions to Peck pending further instructions from the Department.

GAUSS

793.94/6910

The Consul General at Tientsin (Lockhart) to the Chargé in China (Gauss) [27]

No. L–864 TIENTSIN, January 28, 1935.

SIR: I have the honor to report, as a matter of record, the following information on the recent Sino-Japanese clash in Chahar, a diplomatic settlement of which, it is alleged, is now under negotiation.

[Here follows summary of developments in 1934.]

2. *Background of the dispute.* . . .

. . . . . .

On January 4 and 5 the Vice-Chief of Staff of the Kwantung Army, Major General Itagaki, is stated to have headed a conference at Dairen attended by the leading members of the Japanese military on service in China, at which it was decided to demand a complete fulfillment of the stipulations of the T'angku Truce. On January 8 Lieutenant Colonel Kagesa, who had been present at this conference, and who had in the meantime returned to his post in Shanghai as Military Attaché of the Japanese Legation assigned there, issued a statement to the press condemning the insincerity of Japanese [*Chinese?*] diplomacy.

It must also be noted here that statements made by responsible Chinese officials to members of the staff of this Consulate General, and reports of meetings between various high Chinese and Japanese officials published in the press, indicate clearly that informal Sino-Japanese negotiations on a wide range of political and economic subjects have been and are in constant progress.

Whether the Chahar incident has a relation to the whole background of Japanese aggression in China, or whether it is an isolated incident and involves only the pushing of Chinese troops back to the Great Wall along a segment of the Chahar border to settle a boundary dispute, is not yet clear.

[Here follows detailed account of the Chahar incident.]

Formal representations to the Japanese were reported to have been made both from Peiping and Nanking. It is noteworthy that the Chinese Government has not protested this forcible seizure of part of Chahar, nor has any high-ranking Chinese official gone on record as denouncing it in the manner of former years.

Informal negotiations looking to a settlement were continued in Peiping, Lieutenant Colonel Takahashi and Colonel Matsui for the Japanese, and Yueh K'ai-hsien and Colonel Shu Shih-ch'in of the Peiping Branch Military Council for the Chinese, being immediately

[27] Copy transmitted to the Department by the Consul General in his despatch No. D–698, January 28; received March 12.

charged with discussion of the place and time of a more or less formal conference. Meanwhile reinforcements were said to have been sent to the Japanese positions in the disputed area, and from Nanking came word that no representative of the National Government would take part in the negotiations. It was expected that China would be represented by one member each of the Branch Military and Peiping Political Councils, and an officer of the 29th Army. Latest press reports indicate that the matter has already been settled in principle and that only a formal agreement and a place for meeting remain to be decided upon.

4. *Impact of the incident on Sino-Japanese relations.* It is clear that the present attitude of the Nanking Government is directed at disengaging this incident from general Sino-Japanese relations, both to avoid giving pretext for further encroachments and to escape being forced into a position wherein a conference for the delimitation of the common boundary would effectually lend Chinese recognition to "Manchukuo". Since from the Japanese viewpoint it is to their advantage to have such incursions recognized as local matters to be dealt with directly between the Japanese and the particular provincial authorities involved, it is probably safe to predict that a formal conference will be successful in its obvious task of ceding that part of Chahar which became a "disputed area" when the Japanese military coveted it to that same military who are now in possession of it. The "dispute" itself may therefore [be] said to be as good as closed.

But it is the impression of certain well-informed local Chinese that the effects of the incident on the morale of Northern Chinese will not be so easily disposed of. Coming as closely as it does on the heels of the removal of the postal blockade, and contemporarily with renewed talk on the part of the Japanese of "Sino-Japanese cooperation", Chinese in this part of the country are believed to interpret it as a clear indication of the means by which that "cooperation" will be secured and sustained, and of the place China will hold in the now unavoidable "sisterhood" relationship into which it is the aim of Japan to force her through diplomatic negotiation, failing which more forceful measures will be employed.

Respectfully yours, F. P. LOCKHART

793.94/6844 : Telegram

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

TOKYO, January 29, 1935—6 p. m.
[Received January 29—8 : 45 a. m.]

17. Referring to recent reports from China in regard to Japanese activities, I was informed orally by the Foreign Office today that

Hirota had absolutely no idea of going to China at the present time; that the Japanese Minister to China has received no new instructions and that so far as my informant was aware all there was to these stories was that the Kwantung Army hoped to reach a definite understanding with the Chinese local authorities as to the western boundary of Jehol; such arrangement would necessarily be local, because anything else would bring up the question of recognition of "Manchukuo", which no Chinese official could possibly consider at the present time. So far as loans to China are concerned, I was informed that no Japanese loans are in prospect, as the Nanking Government could not consider a loan from Japanese sources, and Japanese bankers would not lend money to China in view of the fact that old debt questions are still outstanding. The Foreign Office seems to be of the opinion that the present is no time to attempt new negotiations with China.

Repeated to Peiping.

GREW

893.20/517 : Telegram

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

WASHINGTON, January 29, 1935—7 p. m.

28. Your 41, January 28, 4 p. m. Department's 25, January 26, 2 p. m. is based on the second paragraph of your 35, January 25, noon. Department desires to forestall the possible issuance by the Chinese Government of any such invitation. We prefer that the American Government should not have to receive or to reject or to deal in any way with such an invitation; therefore, that there be no such invitation. We, however, appreciate the considerations that the Legation has in mind and if the Legation can safeguard the situation by some other process better than by the process outlined in the Department's instruction, Department authorizes Legation so to proceed in its own discretion; but the situation should be safeguarded, and the Department desires that Peck know the Department's attitude, leaving to his discretion the time and method of conveying an understanding of our view.

For your information, the War Department was informally consulted prior to the despatch of telegram 25, January 26, 2 p. m. and that Department expressed concurrence in this Department's views as set forth in that telegram.

HULL

500.A15A4/2640

The Counselor of Embassy in the United Kingdom (Atherton) to the Chief of the Division of Far Eastern Affairs (Hornbeck)

LONDON, January 29, 1935.
[Received February 6.]

MY DEAR STANLEY: I have written so many despatches lately on the British view of the Japanese question that I hesitate to write any more. Yet even at the risk of repeating myself I will once again give you a résumé of a significant conversation which I had with an important person over the week-end.

In spite of the Rome conversations and Flandin's[28] forthcoming visit to London, Great Britain is still apprehensive of the German situation. My informant outlined the European scene in much the same way as reported by Mayer[29] in his telegram No. 966 of January 22, 7 p. m.[30] Given the European situation, Great Britain does not feel she can afford to permit a Far Eastern crisis to develop; she is aware of the dangers inherent in the Japanese situation but likes to feel that the threat in the Pacific is rather evenly divided between the British Empire and the United States. To meet this threat England offered us an alliance and, when we refused, she quite understood. She is intensely conscious of the strong pacifist movement which exists in this country as well as in the United States, which would have great weight in deterring any democratic government from using force. This constitutes another reason, added to the fact that she has not an alliance with the United States, why Great Britain is going to try to work in cooperation with Japan rather than adopt an aggressive, antagonistic attitude. On the other hand, my informant stressed that England is not blind to the fact that Japan's policy aims at a gradual economic elimination of all British and American interests (and incidentally those of other Occidental nations) from China, and subsequently from the Far East in general. Some day Japan will put forward claims in the Pacific Ocean to which the British Empire and the United States will not be willing to accede. At such a time Great Britain will probably again be ready to join with the United States, just as to-day she is ready to enter an alliance, to maintain a satisfactory position in the Far East, by force if necessary.

My informant emphasized that the British can not comprehend why America does not at least understand their present attitude vis-à-vis the Far East. It seems to them the only possible policy if, in the last

[28] Pierre Étienne Flandin, President of the French Council of Ministers.
[29] Ferdinand L. Mayer, Counselor of Legation in Switzerland.
[30] Vol. I, p. 5.

analysis, one is unwilling to use force today. The British feel that they have in reality given us the choice of the only two possible policies. With our refusal of an alliance, the only policy that remains is to cooperate as far as possible with the United States without creating an issue with Japan and at the same time going as far as possible with Japan in an effort to guide her through friendliness. On the other hand, my friend stressed that an alliance with Japan is out of the question.

I could get nothing from the Foreign Office when I asked Victor Wellesley [31] the other day about the Japanese advance in Chahar. They were inclined to think it was the Japanese militarists forcing the hand of a too pacifist Foreign Office. Perhaps you will be interested in the following quotation from an article in the *Economist*, dealing with Mr. Hirota's New Year's speech on January 22nd, since the editor of this paper I feel has always tried to have an equable outlook on the Far Eastern situation:

A "positive solution lies in meeting the points which Mr. Hirota made about Japan's foreign trade—points which were well and temperately expressed, and which the rest of the world will continue to ignore at its peril. The truth is that, if the world opts for economic nationalism, no negative guarantee whatever can prevent Japan from extending her own national domain over the rest of the Far East. If we want that guarantee from Japan, we must give Japan a counter-guarantee of access for Japanese trade to the world market. Here are the elements for a promising set of negotiations which ought to be conducted simultaneously in the economic, political and naval fields."

If you find this letter of any interest, I should be grateful if you would pass it on and give me a line of any reactions you get on our recent London reports on the Japanese question.

With best regards,

Sincerely yours, RAY ATHERTON

793.94/6846 : Telegram

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

NANKING, January 30, 1935—3 p. m.
[Received January 30—9 : 30 a. m.]

19. 1. On January 29, 4 p. m. Suma, Nanking representative of the Japanese Legation, volunteered to me comments on the present state of Japanese-Chinese relations. Suma said the Japanese Govern-

[31] Sir Victor A. A. H. Wellesley, British Deputy Under Secretary of State for Foreign Affairs.

ment feels aggrieved because (1) in many localities in China there are still planned anti-Japanese activities; (2) the Chinese Government discriminated against Japan, as for example, in failing to number Japanese among its foreign advisers and (3) because in spite of fair words the Chinese Government fails to take concrete steps to restore intimate relations with Japan.

2. Despite these discouraging features Suma professed belief that the most powerful persons in the Chinese Government have come to view the existence of "Manchukuo" as a fact which cannot be denied or altered and are ready to take cautious steps toward clearing up outstanding questions. He was unable or unwilling to say what those steps would be. Suma denied that the Japanese Government intended to change its policy or exert additional pressure.

3. Suma showed great interest in reports that negotiations are progressing between the Hong Kong and Shanghai Bank, the Chartered Bank and the Chinese Government for a loan of 200,000,000 sterling to be used in currency and market stabilization and inquired whether negotiations have been initiated with any American interests to which I replied I did not know. He said that Japan had no large sum available for such a loan but he urged that it would rightfully come within scope of the consortium agreement.[32] Repeated to the Legation.

PECK

893.20/518 : Telegram

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

PEIPING, January 30, 1935—5 p. m.
[Received January 30—7 : 04 a. m.]

51. Department's 28, January 29, 7 p. m. The Military Attaché will leave February 1, 3 p. m. for Shanghai and Nanking and will orally convey sense of Department's views to Chiang and to Kung, Minister of Finance, who was present [at] previous interview. He will also appropriately inform Jouett who would likely be the person through whom an effort might be made to find a successor. I am informing Peck fully, also sending memorandum for the information of Minister Johnson upon his arrival.[33]

GAUSS

---

[32] China Consortium Agreement, October 15, 1920, *Foreign Relations*, 1920, vol. I, p. 576.

[33] The Minister in China reported in his despatch No. 3371, February 18, 1935, that Lt. Col. Drysdale had carried out the Legation's instructions in conversations with Kung and Jouett, but had been unable to see Chiang Kai-shek because of his absence (893.20/524).

761.93/1542

Report by the Military Attaché in China (Drysdale)[34]

Report No. 9038 [PEIPING,] January 30, 1935.

The relatively unproductive or desert areas of Central Asia have in the past and are possibly even now acting as a deterrent to any startling imperialist expansion by either Russia or Great Britain into the remote regions of Western China. While these desert areas will continue to act as a barrier or a buffer between the expansionist forces of both the Soviets and the British and China Proper, the situation in Sinkiang is causing considerable concern to the Nanking Government. In the case of this province the desert or barren area lies, unfortunately for the Chinese, along its central and southern part, which fact leaves the economically productive part of the province bordering on Soviet Russia and detached to a remarkable degree from Chinese influence or control.

Last year Mr. Lo Wen-kan, then Minister of Foreign Affairs, made an extensive visit to Sinkiang, ostensibly to investigate its economic condition and the judicial system in the Northwest. What he and his superiors in Nanking were probably after was to find a formula to cope with the increasing Red influence in that area. Shortly after Minister Lo Wen-kan's return, a commission on Sinkiang affairs was set up, whose function was to devise ways and means to consolidate Nanking's political power in Sinkiang and to map out plans for its economic development.

A few months ago this special commission recommended to the Nanking Government a number of reforms, one of which was that the New Dominion, as the Chinese call it, should be converted into and administered as a regular province. With more than two-thirds of its frontiers facing Soviet Russia and without any railway connection with China Proper, Sinkiang cannot but find it more expedient to cooperate with the Soviets than to keep aloof from them.

The present Governor of Sinkiang, General Sheng Shih-tsai, realizes this point well. Press despatches indicate that he already has no less than five Soviet advisers in his government, including two military experts. By virtue of the secret agreement made in 1932 with the former governor, Chin Shu-jen, Soviet citizens have not only obtained access to many important trade routes and commercial centers but have also obtained a "right" to investigate and exploit the mineral resources in Sinkiang, an area estimated to be about one-tenth of all China. The close cooperation which the Soviet Government leaders have been giving General Sheng Shih-tsai and vice versa con-

[34] Copy transmitted to the Department by the War Department about March 6.

stitutes a further indication that Soviet Russia has already developed a "special position" in Sinkiang. The Soviet Military Attaché to China assured me that the provincial chairman was *persona grata* to the Russian government and that Soviet policy was based on a desire for orderly government along this frontier in order that trade might be developed. Because of the Turksib railway running to the provincial boundary, Sinkiang has become almost wholly dependent upon Soviet Russia as the chief outlet for raw materials and the main source of supply for manufactured goods.

The Chinese Government is aware of this situation and is attempting to cope with it by establishing a system of communications connecting the Yangtze River and the Lung-Hai Railway with the Northwest. The Economic Council has allocated funds for the construction of roads from Kansu to Sinkiang and work is proceeding in Shensi and Kansu provinces on this system. While the Chinese have established radio communication and an air route to the Northwest, Sinkiang still remains so difficult of access from Central China and the intervening area so barren and extensive that it seems unlikely that the Chinese will be able to meet Soviet competition for years to come. Temporarily at least the Soviets are practically in control and Russian commerce will continue as Sinkiang's most important trade.

Ambassador Bullitt, when passing through Peiping recently, stated that the Soviets were paying special attention toward improving conditions along their border areas to impress neighboring peoples with the permanency, prosperity and desirability of the Soviet regime, and expressed a belief that Soviet influence would penetrate border states as a result of this policy. But fortunately for China the great barren areas lying between Sinkiang and Central China are an almost insurmountable barrier to any considerable Soviet penetration into the heart of China where Soviet influence is visibly diminishing and where the government's present policy is winning over Soviet ideology. Any great Soviet penetration into the heart of China via the Northwest seems at present extremely improbable.

W. S. DRYSDALE

793.94/6842 : Telegram

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

WASHINGTON, January 31, 1935—noon.

30. Your 40, January 28, 1 p. m. and previous, and Tokyo's 17, January 29, 6 p. m. The Department commends Peck for his alertness. It is gratified by the promptitude with which the Legation and the Embassy have made available to the Department information and

comment helpful toward making an estimate of current reports of Sino-Japanese negotiations and of possible future developments.

The Department confidently expects that officers in the field will continue attentively and unremittingly to follow events and to report promptly by telegraph materials likely to clarify our knowledge of the existing situation and facilitate anticipation or understanding by us of developments, furnishing whenever possible interpretative comment. In the foregoing connection, all concerned should view denials by interested parties with a reasonable degree of objective skepticism, assuming that there may be desire by such parties either to prevent premature disclosure of facts or to put out information in such manner as to promote the accomplishment of ends in view.

In association with nationals of China or Japan such officers should refrain from making expressions of opinion, and in association with other private nationals they should adopt an attitude of caution, exercising care not to subscribe to or cultivate any impression that the American Government is either indifferent to or unduly apprehensive over the possibilities and implications of developments in this situation.

Repeat to Nanking as Dept's No. 7; repeat also to Tokyo as Department's 12.

HULL

793.94/6850 : Telegram

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

NANKING, January 31, 1935—2 p. m.
[Received 3 p. m.]

20. My 19, January 30, 1 [3] p. m.

1. During courtesy call on the Japanese Minister January 30, 7 p. m., I alluded to the current newspaper reports that negotiations are progressing between the Japanese and Chinese authorities. I hoped to elicit some information. Although the Minister gave me no details he remarked with evident satisfaction that relations between the two countries are much more favorable than they were.

2. Captain McHugh of the Fourth Marine Regiment in Shanghai, who is well acquainted with Madame Chiang Kai-shek, paid a social call on her on January 31, 11 a. m. McHugh mentioned the newspaper reports concerning current negotiations and she stated that the Japanese authorities are pressing the Chinese authorities "very hard", but she insisted that no proposal for an alliance had been made formally. She remarked the Japanese were about to scrap the

Nine-Power Treaty [35] and inquired what the Americans and British were prepared to do about it, to which McHugh replied that of course he did not know. McHugh states that his informant gave every appearance of knowing about important activities which she was not at liberty to divulge.

3. American news correspondent states he has been informed by an official of the Ministry of Finance that latter is working intensively on some scheme of monetary reform. American advisers Young and Lockhart are in Nanking assisting.

PECK

793.94/6849½

President Roosevelt to the Secretary of State [36]

WASHINGTON, January 31, 1935.

I think our immediate course should be to watch closely all evidence, reports, rumors, etc., and be prepared to ask for official information both from China and Japan, if and when the situation warrants it.

F[RANKLIN] D. R[OOSEVELT]

793.94/6860

The Secretary of State to the Chairman of the Senate Committee on Foreign Relations (Pittman)

WASHINGTON, January 31, 1935.

MY DEAR SENATOR PITTMAN: In response to an oral request made to Mr. Carr on January 24, 1935, by Mr. Walter C. Lamb, Assistant Clerk of the Committee, I will express briefly my views with regard to Senate Resolutions 32 and 33, both presented by Senator King on January 3, 1935.[37]

I. Senate Resolution 32 would authorize examination by the Committee on Foreign Relations or a sub-committee thereof "into the policy pursued by Japan in Manchuria with a view to determining whether such policy has violated any of the provisions of the Kellogg Peace Pact [38] or the Nine Power Treaty."

---

[35] Signed at Washington, February 6, 1922, *Foreign Relations*, 1922, vol. I, p. 276.

[36] This memorandum was in answer to a letter from the Secretary of State, dated January 30, enclosing copies of several telegrams and a memorandum regarding reports that important negotiations were in progress between China and Japan (793.94/6850a).

[37] *Congressional Record*, vol. 79, pt. 1, p. 142.

[38] Signed at Paris, August 27, 1928, *Foreign Relations*, 1928, vol. I, p. 153.

On January 27, 1932, President Hoover transmitted to the Senate a report by Secretary Stimson on conditions in Manchuria, which report, published as Senate Document No. 55 of the Seventy-Second Congress, contains texts of communications passed between the American Government and the Chinese and Japanese Governments, together with other related documents, in regard to the controversy between China and Japan in Manchuria since September 18, 1931, communications passed between the United States and the League of Nations in regard to the same matter, and various relevant documents and communiqués issued by the League. The League of Nations has made available to the public reports of the proceedings and findings in regard to the controversy between China and Japan of the various bodies that are either a part of the League or that were set up by it in relation to this matter. It is believed that there is readily available in these and other published documents and papers sufficient material of fact and of opinion to render supererogatory an investigation such as is envisaged in this resolution.

With special reference to the question arising out of the establishment by the authorities in Manchuria of an oil monopoly,[39] it may be stated that the American Government, along with the British and Netherland Governments, has made representations to the Japanese Government, in which it has been emphasized that the establishment of any monopoly would contravene the provisions of treaties and violate other undertakings of the Japanese Government to preserve the principle of the open door. An investigation of this question while it is under discussion between the American Government and the Government of Japan would not, it is believed, tend to promote a satisfactory adjustment of the matter.

II. The question raised in Senate Resolution 33, whether Japan has fulfilled its obligations to refrain from fortifying the Japanese Mandated Islands, is being examined by the Mandates Commission of the League of Nations. In view of the fact that the United States has consented, as provided in Article I of the Treaty concluded on February 11, 1922, between the United States and Japan concerning the Island of Yap and other Japanese Mandated Islands,[40] to the administration, pursuant to the mandate issued to Japan, of the Islands by Japan, and in view of the fact that Japan is required under its mandate to report to the League of Nations in regard to the manner in which it is carrying out its mandate, it would seem that assumption by the United States at this time of responsibility for a separate and independent inquiry into the question whether the terms of the man-

[39] See pp. 877 ff.
[40] Signed at Washington, *Foreign Relations*, 1922, vol. II, p. 600.

date are being fulfilled would be untimely and be likely to serve no useful purpose.

III. The two questions set forth in the draft resolutions under reference do not concern exclusively the United States and Japan; they are also of concern to all the nations that are members of the League of Nations and to all that have adhered to the Pact of Paris.

IV. Action such as is envisaged in these resolutions, if engaged in at this time, would in all probability cause and occasion a considerable amount of ill-advised public discussion in this and other countries of controversial questions in regard to which, in the view of this Department, a period of quiet consideration rather than of agitation and contention is desirable.

In view of the foregoing considerations I am of the opinion that an undertaking by the Senate Committee on Foreign Relations or a sub-committee thereof of the investigations proposed in the draft resolutions under reference would not be in the public interest.

I assume that the Committee does not wish to make public this letter or any portion thereof. However, should the Committee desire to make this correspondence available to the public, I request that, prior to such action, I be given an opportunity to express my views in regard to such proposal.

Sincerely yours, CORDELL HULL

893.71 Manchuria/82 : Telegram

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

PEIPING, February 1, 1935—4 p. m.
[Received February 1—7 : 51 a. m.]

54. Department's 2, January 4, 6 p. m. Local foreign Commissioner of Posts states that parcel post and money order services between China and "Manchukuo" began today.

GAUSS

793.94/6849½

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

[WASHINGTON,] February 1, 1935.

The Chinese Minister informs me in confidence that he has a strictly confidential telegram from his Minister for Foreign Affairs which states in effect that reports published in American newspapers appear to be Japanese propaganda; that the Japanese press has published even more sensational predictions; that Japanese officials have not yet made a "concrete *démarche*" except a demand for complete suppres-

sion in China of anti-Japanese activities; that it is believed in China that proposals of importance may soon emanate from Tokyo; that the authorities in Nanking consider it advisable to obtain "Japan's respect for Chinese territorial integrity pending settlement of the 'Manchukuo' question" and to avoid any concession which would involve a loss of sovereign rights.

793.94/6855 : Telegram

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

NANKING, February 2, 1935—10 a. m.
[Received February 2—7:58 a. m.]

21. 1. Kung, Minister of Finance, called on me February 1, 7 p. m., and saying he thought I might want to report to the American Government the present state of affairs, he described what he designated the "grave situation" of the Chinese Government and the entire nation.

2. While Kung employed very restrained language he nevertheless attributed the gravity of the situation in large part to the silver purchase policy of the American Government which he said had unduly raised the price of silver instead of stabilizing it as had been the intent of the silver agreement. This in turn caused the drainage from China of $260,000,000 in 1934, mainly in the last 4 months 10 times the export in any one previous year which tightened currency and credit and has made it impossible to finance not only ordinary commercial and industrial operations but even vital government activities such as the economic reconstruction of the country and the suppression of the communist forces West China.

3. Kung said that disaster threatened unless financial aid obtained from some foreign source and he referred to a proposal which he stated he had submitted to the American Government recently.[41] He asked that I telegraph the Department expressing his earnest hope that this proposal would meet with the approval of the American Government.

4. As being a phase of the situation of no particular interest to the American Government and to European Governments he referred to recent news reports from Japanese sources to the effect that the Japanese Government is pressing on China collaboration with Japan in all fields to the exclusion of the white races and he particularly instanced a report carried in Reuter's service on February 1 quoting General Minami as advocating that Europeans, Americans and Orientals each

[41] See communication from the Chinese Minister of Finance to the Chinese Legation, p. 528.

take steps to preserve peace in their respective areas and that China abandon policy of depending on the United States, Europe and the League in opposing Japan. He said I might safely infer from the Japanese reports what proposals are being made in China by Japan. In spite of my questions Kung refused to indicate in precise terms what demands, if any, the Japanese are presenting at the present time but he repeatedly emphasized that now is a crucial time in the history of the Orient and that timely financial aid from the United States enabling China to preserve independence in facing Japan would save the world from the threat of Japan's imperialistic designs.

5. Chinese leaders, with whom I have conversed during the past week, have been more reticent than is their custom when talking about Japanese oppression in China and I conclude either that the Japanese have not made formally any fresh demands on China or that the Government is favorably considering a policy of submission to and collaboration with Japan and is attempting to keep it secret until it is to some extent an accomplished fact. It is certain that there are leaders in the Government who advocate this policy arguing that the assistance hoped for from the United States and the League has hitherto given no promise of materializing in effective form. The most probable explanation of the contradictory reports is that the pro-Japanese group in the Government have succeeded in persuading Chiang Kai-shek to listen to Japanese secret overtures and that he has forbidden any discussion of the subject with outsiders.

PECK

793.94/6851 : Telegram

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

TOKYO, February 2, 1935—11 a. m.
[Received February 2—1 : 38 a. m.]

22. Despite official assurances that no new instructions have been given to the Japanese Minister to China, rumors of negotiations and proposals for new agreements between Japan and China continue to occupy the press.

From what can be learned here, it seems probable that the basic difficulty may be economic rather than political. The recent rise in the price of silver has upset trade with China, while the currency situation in Manchuria is causing the Japanese Army much concern. Reports, whose value the Embassy cannot estimate, indicate that the Nanking Government is having difficulty with its finances due to the hoarding of silver and its disappearance from circulation. In these circumstances, it is possible that the Chinese may ask for or the Japanese may offer some sort of assistance from Japan, although it is

problematical just what Japan may be able to do. It seems improbable that Japanese money would be available in any quantity, and it is not clear what else would be acceptable, nor is it clear what compensation the Japanese would expect for whatever assistance might be offered or given.

Silver being the basic medium of exchange in China, the Government may be driven by its rising price to currency devaluation and to asking Japanese assistance in stabilizing exchange.

Repeated to Peiping.

GREW

793.94/6852 : Telegram

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

PEIPING, February 2, 1935—noon.
[Received February 2—3:44 a. m.]

57. Reference Legation's 36, January 25, 5 p. m. It is expected that Chinese and Japanese military officers will begin 3-day conference today at Tatan in western Jehol Province for settlement of question on the basis of agreement already informally reached at Peiping. According to Chinese official source the Japanese interpretation of the boundary will be accepted; that is, the north-south stretch of the Great Wall in southeastern Chahar and a line running from its northernmost point passing east of Kuyuan to the usually accepted Jehol-Chahar boundary; and Chinese troops at present in eastern Chahar will be withdrawn and only Chinese forces acceptable to the Japanese will be allowed to replace them. There is also an unconfirmed report that agreement will be made for opening a motor traffic road between Chengteh and Kalgan running north of the Great Wall. It is suggested here that the Japanese have asked less than they originally intended in order to have favorable effect on Sino-Japanese negotiations understood to be going on at Nanking.

GAUSS

793.94/6854 : Telegram

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

PEIPING, February 3, 1935—3 p. m.
[Received February 3—11:50 a. m.]

60. Central News Agency reports General Chiang Kai-shek as stating that Hirota's recent speech to Diet is regarded by Chiang as sincere, that China's past anti-Japanese feeling and Japan's dominating attitude toward China should both be rectified for the purpose of

strengthening friendship, that the Chinese should curb anti-Japanese movements to manifest their righteousness and that he believes Japan will also treat China righteously. With regard to current alarming rumors of Sino-Japanese negotiations looking toward Japanese protectorate in China, Chiang said that the rumors were absurd.

These statements are regarded by the Legation as two possible purposes: (1) to quiet the Chinese people who have been made uneasy by reports of Sino-Japanese negotiations of wide import being in progress, and, (2) to prepare the way for Sino-Japanese cooperation the degree of which cannot yet be ascertained. However, with regard to the press reports from Tokyo containing nine points which were given by the political correspondent of *Osaka Mainichi* as being under consideration by the Japanese Foreign Office in forming its China policy, the Legation regards this report as an officially inspired trial balloon to discover foreign and Chinese reaction. It is possible that the reply was exaggerated and made internationally alarming so that when a final show-down comes the foreign powers will be so relieved that Japan has taken less from China than expected that they will view the results with complaisance.

GAUSS

793.94/6857 : Telegram

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

NANKING, February 4, 1935—11 a. m.
[Received February 4—6 : 10 a. m.]

22. 1. An American adviser has confidentially outlined to Atcheson [42] the following dark picture drawn from conversations with important figures in Chinese Government and political life: There is no question that Japan is determined to dominate the Chinese affairs and will succeed and there is already evident swing in sentiment among many influential Chinese in Government tending toward antiforeignism with respect to Americans and Europeans; that only three Chinese leaders know the exact nature of Japanese proposals—Chiang Kai-shek, Madam Chiang and one other informant could not name; that Japanese proposals together with financial crisis and what informant called foredoomed face [*fate?*] of Szechwan anticommunist campaign have placed Chiang in inextricable position; and that capitulation to Japanese will lead to his downfall and probably assassination with chaos in China the result.

2. I feel above is basically true but perhaps overpessimistic.

PECK

---

[42] George Atcheson, Jr., Second Secretary of Legation in China.

793.94/6856 : Telegram

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

TOKYO, February 4, 1935—7 p. m.
[Received February 4—7:58 a. m.]

23. On January 30 and February 3 the Tokyo correspondent of the *New York Times* telegraphed analyses of the Sino-Japanese situation that merit attention. I am aware that he has consulted high Foreign Office and other officials as well as businessmen. His information is usually accurate, although in this case he seems not to stress sufficiently the economic aspects of the situation, which may prove to be the determining factor in any arrangement reached in the present conversations.

The Foreign Office here continues to state that Japan is making no demands on China at the present time.

GREW

893.001 (M) Pu Yi/7

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

No. 686 WASHINGTON, February 5, 1935.

SIR: The receipt is acknowledged of your despatch No. 1106, dated December 28, 1934,[43] in which it is requested that the Department give you provisional instructions in regard to the attitude which you should take in the event that invitations are extended to you to attend functions given by the so-called Emperor of "Manchukuo" or given in his honor on the occasion of his projected visit to Tokyo.

The Department confidently relies upon your judgment and discretion to take such action in regard to the problems envisaged in your despatch under reference as may be best calculated to preserve the dignity and interests of the United States without gratuitously or unnecessarily injuring the susceptibilities of the Japanese people and Government. It believes, therefore, that it would be more helpful to you to have latitude in dealing with these matters than to be restricted by specific and detailed instructions even of a provisional character. The Department would appreciate, however, careful consideration being given to its views and desires as expressed in the following paragraphs.

The Department expects that you will consult with your British and French colleagues with a view to concerting the action and attitude of the representatives of the principal powers in regard to any

[43] Not printed.

problem that may develop out of the presence in Tokyo of "Emperor Kangte".

It is noted that a high official of the Imperial Household has intimated that no invitation to meet "Emperor Kangte" during his sojourn in Tokyo will be addressed to members of the diplomatic corps. It is to be hoped that such will be the case. If, however, invitations are extended to you in the name of the Emperor of Japan to attend social functions to be held by the Imperial Household at which "Emperor Kangte" may be expected to be present as one of the guests, they may in your discretion be accepted, as such acceptance could not, as you are aware, in any way imply recognition of "Manchukuo".

The Department is reluctant to believe that the Imperial Household would, in view of the declarations of attitude of the powers vis-à-vis the entity known as "Manchukuo", address to you and other members of the diplomatic corps invitations in the name of "Emperor Kangte", or so worded as to indicate that there is intention to do honor to "Emperor Kangte", but if such invitations are extended to you the Department would expect that you would abstain from accepting them.

It is assumed that you would not, of course, attend any function which would be made the occasion of political action affecting "Manchukuo".

Very truly yours, For the Secretary of State:
WILLIAM PHILLIPS

793.94/6858 : Telegram

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

PEIPING, February 6, 1935—4 p. m.
[Received February 6—2 p. m.]

64. Reference Legation's 57, February 2, noon, concerning Sino-Japanese conflict on border of Chahar. A settlement is stated to have been reached on February 2nd by Chinese and Japanese military officers. According to a press statement issued by the Peiping branch Military Council:

1. The recent incident in East Chahar occurred as a result of some misunderstanding.
2. With a view to effecting a peaceful settlement of the incident, the Japanese troops will withdraw to their original garrison posts while the Chinese troops will not go east of the Great Wall, and
3. Rifles and ammunition which the Chinese had taken from militia in Jehol will be returned.

According to information given by First Secretary of the Japanese Legation at Peiping to a member of this Legation, however, the Japa-

nese representative at the conference reviewed the history of the trouble, alleged Chinese responsibility and made three points:

1. The Chinese Army should not invade "Manchukuo" territory or cause the Kwantung Army any anxiety from outside that territory and should refrain from sending plain-clothes men to spy on Japanese military activities;
2. In the event that China goes contrary to the above, the Kwantung Army will take necessary measures, the result of which will be Chinese responsibility, and the Kwantung Army will also consider any straightening of the Chinese lines as a retaliatory act; and,
3. The arms of the "Manchukuo" militia shall be returned. The Chinese delegate thereupon approved the historical review, expressed regret, pledged that no such action would occur again, and agreed to the three points. The Japanese secretary also stated that agreement about the boundary would be left for future settlement (a question which in reality is already settled as the Chinese troops are now west of the Great Wall) and that possibly some further withdrawal or replacement of Chinese troops in Southeastern Chahar was indicated by the first Japanese point.

The seeming leniency of the Japanese military at this conference indicates their desire to improve the Sino-Japanese cooperation which was advocated by General Chiang Kai-shek in a press statement (see Legation's 60, February 3, 3 p. m.). However, the Legation will continue to endeavor to obtain information with regard to any possible secret understandings reached.

It may be added that the First Secretary of the Japanese Legation also stated that the region north of area recently in dispute is now administered by "Manchukuo" although Chahar-Jehol border yet remains to be defined.

GAUSS

893.00/12946 : Telegram

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

PEIPING, February 7, 1935—2 p. m.
[Received February 7—6 : 25 a. m.]

66. From a source which I regard as both well informed and reliable, I learned that a decision was recently made by Chiang Kai-shek to effect the following changes in North China:

(1) Yen Hsi-shan to come to Peiping in about March as chairman of the branch Military Council. After his arrival, General Ho Ying-chin, Minister of War, now head of that Council, to return to Nanking.
(2) The Peiping branch Political Council to be dissolved, and General Huang Fu not to return to Peiping but to remain at Nanking as Minister of the Interior.
(3) Most of the former Mukden troops [in ?] the north to be transferred to the region of Ichang, on the Yangtze. Chang Hsueh-liang

to move his headquarters from Hankow to Ichang and to engage in the campaign against the Communists in Szechwan.

2. From the same source I learn Chiang Kai-shek will remove his headquarters from Nanchang to Hankow, where he can direct the campaign in Szechwan and at the same time be prepared to deal with the Southwest if necessary. No *rapprochement* between Nanking and the Southwest having actually been effected.

3. The appointment of Yen Hsi-shan as the principal Government representative in North China would place Sino-Japanese affairs in this area in the hands of an official of known Japanese leanings. I am told that the appointment has Japanese approval.

4. I have confidence in the information given by my informant but at the same time I should report that there are disinterested Chinese observers in whose judgment the Legation also has confidence who do not believe that Yen has been or can be persuaded to leave Shansi Province and take up a post at Peiping.

5. If the changes outlined in paragraph 1 are effected they may be regarded as further indication of a gradual yielding by Chiang Kai-shek and his group in the National Government to Japanese pressure. The changes would of course be accompanied by an extensive replacement of officials and the shifting of troops.

6. General Chiang Kai-shek has recently left Nanking for Kuling and Nanchang and it is reported that he may fly to Chungking. I consider that for the present the Japanese pressure at Nanking will be somewhat relaxed and that the Japanese will be content to see the situation move slowly but steadily in the direction they desire with a more conciliatory and friendly attitude on the part of the Chinese leaders as shown in General Chiang's press interview reported in the Legation's 60, February 3, 3 p. m. We may expect to see the gradual replacement of officials at Nanking by persons acceptable to Japan such as General Huang Fu who has been appointed Minister of the Interior and has also been mentioned for the post of Minister of War. And it may be anticipated that at an opportune moment China may be persuaded to find occasion to withdraw from the League and to dispense with the services of the League advisers. Both Japanese and Chinese leaders probably realize, however, that the readjustment in Sino-Japanese relations must be most gradual.

GAUSS

793.94/6855

The Secretary of State to President Roosevelt

WASHINGTON, February 7, 1935.

MY DEAR MR. PRESIDENT: In connection with two matters, first, the silver question and, second, the rumors that a forced *rapprochement*

between China and Japan is in process, I send you herewith two telegrams, one from the American Ambassador at Tokyo and the other from the American Consul General and Counselor of Legation at Nanking, both of date February 2.[44]

The telegram from the Ambassador at Tokyo is guarded in tone but gives clear indication of important possibilities. The telegram from the Consul General and Counselor of Legation at Nanking, who is one of our most experienced "China" officers, gives an account of a conversation with Dr. H. H. Kung, Chinese Minister of Finance, in which Kung pleads for solicitous consideration by the American Government of the proposal which he has submitted with regard to silver. The proposal appears in a communication which has been made to us through the Chinese Legation, dated February 5,[45] a copy of which I am sending to you separately.

These telegrams give indication of the bearing of the silver question upon developments in the field of Chinese-Japanese relations. Whatever the character and amount of the effect which our silver policy is having upon China and in China, we must recognize, I think, and give due consideration to the fact that it is contributing as one among many factors to the situation of weakness in China of which the Japanese are taking, toward extending their own authority in the Far East, full advantage.

Faithfully yours, CORDELL HULL

894.032/140

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

No. 1162 TOKYO, February 7, 1935.
[Received February 23.]

SIR: I have the honor to observe that for the first time since 1930 a Foreign Minister of Japan has been able to deliver a speech* on the country's foreign relations, as Mr. Hirota did on January 22, 1935, at the opening of the regular session of the Diet, and point with gratification to a real improvement—at least in one direction. The recent conclusion of the negotiations for the sale of the North Manchuria Railway has made this possible with respect to Soviet Russia.

In form Mr. Hirota's speech was orthodox; in tone perhaps more than ordinarily optimistic; and in substance a model of carefully chosen expression cloaking at the same time a purposeful policy of undisputed leadership in the Far East. This policy, which is described by the Japanese as "the preservation of peace in East Asia", has been

[44] Telegrams numbered 22 and 21, pp. 37, 38.
[45] *Post*, p. 533.
*Embassy's telegram No. 12, January 22, 3 p. m. [Footnote in the original; telegram not printed.]

enunciated so often that it hardly seems necessary to repeat it. Nevertheless, inasmuch as it is the basic factor with which all nations have to contend in dealing with Japan, whether it be in the field of naval disarmament, political questions or commercial and economic problems, it may be found of interest to review several of the public announcements made in this connection during the past year.

In his speech to the Diet on January 23, 1934,[46] Mr. Hirota said: "We should not forget for a moment that Japan, serving as the only cornerstone for the edifice of peace of East Asia, bears the entire burden of responsibilities". While this statement did not pass unnoticed, it was not generally taken up until repeated in more direct form by Mr. Amau in his now famous statement of April 17, 1934.[47] He said: ". . . at the same time we consider it only natural that, to keep peace and order in East Asia, we must even act alone on our own responsibility . . ." Nothing could be clearer than these two announcements, following one another as they do.

The next reference to this policy is found in Mr. Hirota's statement in his speech before the extraordinary session of the Diet on November 30, 1934: "I am very pleased to say that on the whole our relations with the various countries of Asia, Europe and America have grown increasingly cordial because better understanding now prevails among the Powers regarding Japan's position in East Asia". This is of particular interest in that it carries the implication of acceptance by the rest of the world of Japan's policy and this is supported by Mr. Hirota's remarks before the Diet two weeks ago in which he said: "Japan attaches great importance to her friendship with other states in East Asia, and counts on their participation in bearing the serious responsibilities for the maintenance of peace in this part of the world".

Bearing in mind, then, the nature of this announced policy in the pursuit of which Japan has not hesitated to resort to force of arms and presumably will not hesitate to do so in the future, the repeated expressions by Mr. Hirota in the speech under consideration of good will, fraternal sentiments, non-aggression pacts, friendship, collaboration, cooperation and peaceful purposes may be viewed with perhaps a keener perception of the realities involved.

Paragraph by paragraph Mr. Hirota in his speech takes up Japan's relations with the various countries important to her and with the outstanding question of naval disarmament. In most cases he deals with generalities and emphasizes Japan's peaceful purposes; the same time, however, it is often possible to extract a kernel of fact from which a

[46] *Foreign Relations*, 1934, vol. III, pp. 9, 13.
[47] *Foreign Relations*, Japan, 1931–1941, vol. I, p. 224.

conclusion may be drawn as to the Government's real intentions regarding the various problems.

In dealing with "Manchukuo" Mr. Hirota avoids any direct or indirect suggestion of recognition by other powers and contents himself with the simple statement that "the work of laying the national foundations of Manchukuo has been completed." By implication the question of recognition is for the time being at least a matter of indifference to Japan. He emphasizes the economic importance of the new state to Japan as well as the ties of friendship which bind the two countries together.

Touching the question of the suspension of the preliminary naval conversations he says: "We sincerely hope for . . . the achievement of a new equitable agreement which will embody the principles of non-aggression and non-menace and effect an actual and sweeping armament reduction . . ."

With the United States "there exists no question . . . which is intrinsically difficult of an amicable solution", and the "good understanding and cooperation between Japan and Great Britain constitute really an important contribution to the peace of the world".

For the first time since his incumbency Mr. Hirota has been able to speak with a measure of guarded optimism about the relations with the Soviet Union. Referring to the impending settlement of the North Manchuria Railway question he says that the Japanese Government is planning "to accelerate the peaceful development of Soviet-Japanese relations by redoubling their efforts for the solution of other pending problems", and he indicates that the first problem to be undertaken will be that of the establishment of a demilitarized zone along the "Manchukuo"-Soviet frontier. That this question is uppermost in the minds of the Japanese will be found by reference to Mr. Hirota's speech before the Diet in January of last year in which he said that no difficult questions were encountered in Soviet-Japanese relations from the conclusion of the Peking Basic Treaty of 1925 [48] even through the Manchurian Incident but that "recently the attitude of Soviet Russia toward Japan seems to have undergone a change . . . Japan is certainly setting up no new military establishments along the Manchukuo-Soviet frontiers". And recently, in reply to an interpellation in the Diet on January 25, 1935, Mr. Hirota said: "I contemplate calling the attention of the Soviet Government to the status of Soviet defense in the Far East, particularly on the Soviet-Manchukuo frontier".

At this point it is highly significant to note that the remarkable progress which Mr. Hirota has been able to achieve in the improvement of

[48] Signed at Peking, January 20, 1925, League of Nations Treaty Series, vol. XXXIV, p. 31.

relations with Soviet Russia during the past year has come about only after the energetic militarization and defense of the Eastern Provinces by the Soviet Government and this fact may prove an object lesson from which other nations may well profit in dealing with Japan.

In describing Japan's problems in relation to China, the Foreign Minister emphasizes the communist dangers abroad in that country, possibly with the intention of appealing to the other foreign countries. He also makes an indirect appeal for a termination of the anti-Japanese boycott in China. In connection with recent telegrams from Peiping regarding the rumor that Chiang Kai Shek has decided to adopt a policy of "coordination" with Japan, there may be a hint in this direction in Mr. Hirota's statement: "I may add that the Japanese Government are glad to acknowledge the fact that . . . there is today a growing trend among the Chinese people to appreciate the true motive of Japan. While we will do everything to encourage this tendency, I hope that China will collaborate with us further in that direction".

He finds the foreign trade situation, in which some countries have abrogated their commercial treaties with Japan to be "extremely regrettable" and he makes the following statement which in some ways may be considered as the most important statement in his speech: "For a country like Japan with a vast population on the one hand and meagre natural resources on the other, foreign trade constitutes an important peaceful means of livelihood". The word "peaceful" gives this sentence its significance for it brings to mind the only possible alternative, namely that Japan would otherwise be driven to seek means of livelihood by force.

There follows a reference to the failure of the Batavia Trade parley and a conventional expression to the effect that it removed misunderstandings and clarified the respective positions of Japan and the Netherlands.

In conclusion Mr. Hirota mentions the fact that Japan's withdrawal from the League of Nations will become effective on March 27, next, and exhorts the nation to exert itself in the pursuance of its policy and purpose.

Careful reading of the Foreign Minister's address will reveal that however important may be the varied and widely diffused problems with which Japan has to deal, the all-important, the vital, inescapable factor in each one is China. It is Japan's relationship to China and her intense pre-occupation with the chaotic political conditions there which basically govern her relations with other nations; and it is the policy of those nations in dealing with China which affects their relationship with Japan. It is this question which is at the root of Japan's "preservation of peace in East Asia" policy; it is this question which has determined the course of the naval conversations at London; it is

this question which all but brought Soviet Russia into open conflict with Japan and which, indeed, has done so in the past. The politico-economic struggle with which both the United States and Great Britain are engaged with Japan has its basis fundamentally in the question of China. Remove that question and Japan's relations with the rest of the world would be as normal as those of other nations with each other.

In this connection I enclose an article [49] by Baron Yoshiro Sakatani, member of the House of Peers, as it appeared in the *Japan Advertiser* of January 9, 1935. He develops this thesis in an interesting manner and makes several statements which assume considerable importance, especially when read in conjunction with the Foreign Minister's speech. Baron Sakatani says that no close student of the preliminary naval conversations at London can fail to note "a dark undercurrent which poisons the minds of the delegations; and that current has its fountain-head in the discrepancies of opinions regarding the policy toward China". He claims that the United States places over-emphasis upon the "so-called Open Door" in China and maintains that those British and American statesmen who fear that to give Japan complete freedom of action in the East would jeopardize their interests in China are under a grave misapprehension.

To those who may feel that Mr. Hirota's avowal of peaceful purposes and conciliatory methods are to be taken at their face value, the following passages in Baron Sakatani's article should be studied: "If England and America aim to form their own policies toward China independently of Japan, the two nations would be attempting a thing imprudent and unwise". And, again: "One can imagine no greater obstacle to the peace of the world than that England and America, backed by their powerful navies, should assume the leadership in the Far East".

Thinly veiled threats, these, and clothed in the language of diplomacy, but not to be in any sense ignored.

Respectfully yours, JOSEPH C. GREW

761.94/816

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

No. 1165 TOKYO, February 8, 1935.
[Received February 23.]

SIR: Viewed in a broad sense the course of the relations between Japan and Soviet Russia since September 18, 1931, has been in the main determined by the efforts of the two nations to adjust themselves

[49] Not reprinted.

to the radically different situation created by the separation of Manchuria from the rest of China. The creation of "Manchukuo" has been a major political change whatever we may think of the circumstances of its origin. China has been eliminated in that region, Japan has embarked upon a program of exploitation, and Japan and the USSR have found themselves face to face along a continental frontier.

At the time of the Manchurian incident the USSR did not feel equal to opposing the Japanese military in North Manchuria, but her leaders were not slow to recognize that the new situation required action. Their answer was two fold. In the first place the USSR set about to rim the "Manchukuo" border with fortifications and to improve the lines of communication with the Far East by land, sea, and air. In the second place she realized the futility, not to say the danger, of retaining a railroad through territory under the effective control of the Japanese army. Consequently an offer to sell the Chinese Eastern Railway was made, accompanied no doubt by the hope that the negotiations might prove protracted and thus furnish a sorely needed respite to prepare for a situation which seemed menacing. But from the start no hope was entertained of a return to the *status quo ante*. The USSR accepted "Manchukuo" as a fact if not as an independent nation, and the action which she took begins to promise stability for her Far Eastern frontiers.

In Japan the full implications of being face to face with the USSR on the continent were not realized at first. Japan was interested in Manchuria heart and soul but not in Soviet Russia. Soviet-Japanese relations were incidental, only vital in so far as they related to Manchuria. Thus the USSR was regarded as a threat to Manchuria which was to be driven as far away as possible. Moreover, in the hysteria of success, only the wiser heads recalled that the Soviet Union was a vast power with potential strength far overshadowing that which she was then able to muster. Accordingly when the inevitable friction caused by the new situation arose, over the Chinese Eastern Railway, the border question and a host of minor irritants, there came to be danger of hostilities. In fact it is commonly believed in Tokyo that an influential faction of the army favored a war to eliminate the USSR from the Far East. Fortunately, however, saner counsels prevailed. It was realized that Russia was also in the Far East to stay, and opportunity was given to Mr. Hirota to seek to settle each issue on its own merits and to gradually arrive thereby at a peaceful stabilization and regularization of the new political situation in the Far East. Moreover Soviet military strength by 1934 aided in proving to the Japanese that a war with the USSR was not to Japan's best interests at this juncture.

As a corollary of Japan's primary interest in Manchuria it also follows that only those issues with Soviet Russia affecting this region generally present critical possibilities. They are primarily political not economic issues, and involve the Chinese Eastern Railway and the delimitation and demilitarization of the Siberian border. The economic issues have never appeared dangerous, the fisheries questions, the yen-ruble exchange rate, and, in so far as it is an economic issue, the North Saghalien oil fields. We may expect this distinction to persist in future as well. Those matters which affect "Manchukuo" and the political situation in East Asia are critical, those which are economic in nature are not.

With this the case and with Japan's real interests in Manchuria and not in Russia, it is frequently asked why Japan and the USSR do not negotiate a non-aggression pact. The latter has proposed it, and Japan's refusal has naturally aroused suspicion. Two weeks ago before the Diet the Foreign Minister said:

"But I am of the opinion that it is quite difficult to regulate satisfactorily the relations between the two countries through the instrument of a mere paper non-aggression pact. Naturally I do believe that all the important problems now pending between the two must first be solved."

This is a statement of policy which bears out previous evidence* received by the Embassy. If the various Soviet-Japanese issues should all be solved and Mr. Hirota believes a general pact to be desirable, then and only then would a bellicose minority be unable to adduce effective objections.

But the foregoing attitude does not imply that the Foreign Office is satisfied with the *status quo* in regard to the USSR. Before the Diet on January 22 the Foreign Minister stated "our Government are planning to accelerate the peaceful development of Soviet-Japanese relations by redoubling their efforts for the solution of other pending problems". Again on January 25 he said "As regards the Soviet-Japanese situation the Government is fully prepared to foster a closer friendship with that country". He has worked for the peaceful settlement of the Russian difficulties because he felt that the USSR had been all but removed from the old sphere of influence in Manchuria. That was the essential fact and it was now time to get on with other matters.

For nearly half a century Japan's foreign policy in so far as it related to expansion, was centered on Manchuria. All along it has been an effort to win East Asia for the Japanese, to gain security

*Embassy's despatch No. 714, March 23, 1934. [Footnote in the original; despatch printed in *Foreign Relations*, 1934, vol. III, p. 85.]

from interference. Korea was an incident along the way, Manchuria has been the "life line", but as long ago as 1915 Japan served notice in the 21 Demands [50] that China was within the scope of her ambitions. Again at the present time these deep-rooted ambitions, fanned by the nationalism of the day as well as by the needs of Japan's growing industrialization, are finding expression. We do not know precisely what is going on in Nanking at present but it seems probable that the natural focus of Japanese ambitions does not lie in the direction of Russia. The normal and potentially the most rewarding development is towards the west and south. To support this contention a certain amount of new evidence has lately appeared.

To begin with there has been much talk of demilitarization of the "Manchukuo"-Siberian frontier. The Foreign Minister specifically mentioned this point both in his address to the Diet on January 22 and in reply to an interpellation on January 25. It seems certain that a determined effort will be made to induce Soviet Russia to accept some sort of arrangement similar to that provided for the Korean frontier in the Treaty of Portsmouth.[51] But the Foreign Minister is a realist, he is surely aware that the Soviet military preparations were made because the USSR did not trust Japan, and he must realize that the removal of the now extensive fortifications is not probable. His interest therefore in this problem is a studied attempt to demonstrate Japan's peacefulness, its aversion to war, and to place the Soviets with their military preparations in an awkward light. It is not an effort to pave the way for Japanese aggression northwards. Also in an interview with Mr. G. W. Gorman in the *Manchuria Daily News*, General Minami, Commander of the Kwantung Army, said "we do not hold any imperialistic intentions towards Soviet Russia or her territories" while in referring to China he stated "it would not be impossible nor improbable for the adjacent provinces to declare their independence perhaps to seek attachment to the Manchukuo federation. But . . . it will be none of our contriving". This assurance, which was parallel to one given by the War Minister before the Diet, is of course probably of no great value *per se*, but it is significant that the only hint of political change mentioned by the leader of the Kwantung Army is in the direction of North China, not of Mongolia nor of Soviet Russia.

Another bit of evidence, perhaps, has been furnished by the Buir Nor incident† on the Outer Mongolian frontier of Hsingan Province,

[50] *Foreign Relations*, 1915, pp. 79 ff.

[51] Treaty of Peace Between Japan and Russia, signed August 23/September 5, 1905, *Foreign Relations*, 1905, p. 824.

† Monthly Political Report for January 1935. [Footnote in the original; report not printed.]

"Manchukuo". Fighting occurred there over control of the fishing resources of Lake Buir which, located in the midst of desert, is of local importance. At other times or if there was any possibility that the Kwantung Army had aggressive designs in mind, this incident would have aroused much comment and anxiety. But the matter appears to be passing over without further repercussions and a member of the Soviet Embassy has stated with apparent sincerity that the Soviets were not interested in the matter, that it was not worth disputing. Furthermore present indications are that the Japanese are more interested in the general area of Mongolia as the flank approach to North China than to Soviet Russia. Japan is well aware of the state of affairs in Outer Mongolia, it is always referred to as a region of Soviet influence, whereas, to the south of the desert in Inner Mongolia, Japanese agents are reported from time to time as being most active.‡ Inner Mongolia of course commands North China from Hopei to Shensi and beyond.

With the foregoing in mind it appears unlikely that Soviet Russia will experience any serious interference from Japan for the immediate future barring always the possibility of serious crisis in Russia from some other quarter. In that case the Maritime Province will be no more safe than it was during the period 1919–21. Moreover this is patent to the Soviets themselves. They can hardly have viewed with dismay the shift in Japan's interest southwards to China. We may conjecture that they would exercise all possible influence to accelerate this shift which is detrimental to the interests of Great Britain and the United States as well as of other Western Powers. The possibility of Japan coming into conflict with these nations is fraught with potential advantages to the USSR. As a matter of fact the Soviet Ambassador § and also members of the Soviet Embassy staff have for long somewhat cynically indicated that they believed that relations between Japan and the United States were developing ominously. So far as the Soviets are concerned if they take no steps to foment trouble, they will maintain their defenses around the Amur telling Japan in the only language that the latter cannot misunderstand that the door to the North is locked.

We may expect therefore over the next few years that the attitude of the USSR and Japan in so far as it relates to Manchuria will crystallize along the lines laid down by the Chinese Eastern Railway settlement and possible border negotiations. In effect the USSR has now

‡ Embassy's confidential despatch No. 1030, November 1, 1934. [Footnote in the original; for despatch see *Foreign Relations*, 1934, vol. III, p. 297.]

§ Enclosure No. 1 to despatch No. 700, March 8, 1934. [Footnote in the original; for enclosure see *Foreign Relations*, 1934, vol. III, p. 69.]

792998—53——11

recognized the new politics of that portion of East Asia and has been eliminated therefrom. As for the future much will depend upon the success and wisdom with which the Japanese carry out their policies in China. With the progress of her ambitions in this direction we may expect that Japan, wishing her back door to be secure behind her, will genuinely work for the improvement of Soviet-Japanese relations.

Respectfully yours, JOSEPH C. GREW

793.94/6862 : Telegram

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

NANKING, February 9, 1935—noon.
[Received February 9—11 : 10 a. m.]

27. 1. On February 7 during discussion with a responsible official of the Chinese Government the latter expressed to me the conviction that no specific demands or proposals had been presented recently to the Chinese Government although he admitted that various schemes for promoting friendly relations between China and Japan were confirmed by being discussed informally by different officials. He expressed belief that the Japanese Government is very anxious to receive some concrete evidence that China is becoming more friendly because China's attitude toward Japan would be serious if hostilities broke out between Japan and another country, for example, Russia.

2. Suma yesterday told an American newspaper correspondent that the improvement of relations between Japan and China must be gradual because Chiang Kai-shek must overcome die-hard opposition in the Nationalist Party. He said that anti-Japanese boycott activities are going on in Nanking and that until the Chinese Government proves by affirmative acts that its attitude toward Japan has become more friendly the reassuring speeches of Wang Ching-wei and others will have no value.

3. Suma said that the present political conditions in China could not be improved unless the Chinese Government acquired confidence and the only way in which the Government could gain such instruments was by settlement of outstanding issues and by cooperation with Japan. He did not think that the Japanese Government has in mind any large loan to China but rather the advancing of funds for different projects which should be carried on by the joint action of Japan and China, that is economic cooperation.

PECK

793.94/6865 : Telegram

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

NANKING, February 11, 1935—11 a. m.
[Received 2:15 p. m.]

28. 1. The French Minister told me February 10, 7 p. m. that he had received a visit from Suma with whom he had talked for almost 2 hours. Apparently Suma spoke with his usual frankness for he told the Minister that China not only is not organized as a state now but that it never was and never would be. He attributed this partly to the individualistic character of the Chinese which leads them to be indifferent to matters of public concern and partly to their alleged complete lack of idealism. He said that if Chiang Kai-shek should die or fall from power the only man in the whole country who could take his place would be the Kwangsi leader Pai Chung-hsi and that since Pai has tuberculosis he would not last more than 2 years.

2. Suma said that during the recent visit of Chiang to Nanking he had told Chiang frankly that China must be not only the friend of Japan but the special friend and had asked him whether he understood this to which Chiang had returned his usual noncommittal grunt which is his habitual device for avoiding affirmative or negative responses.

3. Suma is constantly reiterating to Chinese and foreigners alike that it is China's destiny to be linked closely with Japan and he recently expressed the opinion that the Chinese leaders are slowly beginning to realize this (a Chinese newspaper representative informed me February 9, 4 p. m. that he had heard that Chiang and Wang Ching-wei had adopted the practice of replying to all Japanese arguments like the above with polite assent and had refused to be drawn into discussion).

4. It will be noticed that Suma's emphasis on the inevitable close association between Japan and China agrees with the tenor of press despatches from Japan purporting to record the views of the Japanese Minister and other Japanese statesmen. It is becoming a real question whether the constant iteration of this statement will not soon begin to carry some conviction to Chinese leaders in Nanking and even to the Chinese public especially in the light of the apparent absorption of America and Europe in their own problems and their diminished interest in the economic and political affairs of the Far East. The proper classification of officials in Nanking as pro-Japanese or pro-European and American reflects the traditional Chinese view that internationally China cannot stand on its own feet but must place reliance either on Occident or on Japan.

793.94/6892

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

[WASHINGTON,] February 11, 1935.

Lord Lytton [52] called and we had a conversation of about a half hour.

In the course of his address at the Town Hall last evening, Lord Lytton had said among other things that he felt that the Occident had failed to make clear to the Japanese its reasoning with regard to events in Manchuria and Japan's procedure in disregard of treaty obligations and in impairment of the peace machinery and the collective system; he felt that it had not even made the effort to do this; he felt that the League as such and the British and the American Governments as governments ought to make approaches to Japan on the subject and the British and American Governments ought to initiate conversations with the Japanese looking toward a common understanding of and a common attitude toward the Far Eastern problem.

With this in mind, the most important part of the conversation now under reference was in consequence of a question which I asked: Had Lord Lytton envisaged steps which might be taken in practice toward doing this thing which he had said had not been done and which he felt should be done. Lord Lytton replied that he had: he felt that there should first be conversations between the British and the American Governments in which there should be developed a line of common or joint approach to the Japanese; these two Governments should work out a practical solution upon which they could agree and should ask the Japanese Government to give it consideration (Note: Lord Lytton did not say definitely what the solution should be but he intimated clearly that it should be along the lines of the recommendations in the Lytton Report. At one point he said that those recommendations should be considered and that perhaps it would be found desirable and essential to make some changes in them). I said that even in so seemingly simple a matter as the holding of conversations between two governments there sometimes arise difficulties: there is first the question of initiative; and, in relation to the holding of conversations between the British and the American Governments with regard to Far Eastern matters, there sometimes arises the difficulty that, as soon as the Japanese learn that such conversations are going on they become suspicious that something is being plotted against them.

[52] The Earl of Lytton was chairman of the Commission of Inquiry sent to the Far East in 1932 by the Council of the League of Nations.

Lord Lytton said that he realized that there exist both of these difficulties. In reply to an indirect question on my part, he said that he felt that in regard to this matter the initiative should come from the British Government, as that Government was a member of the League and was in something of a half-way position between the League and the United States. He said that, however, the British Government would hesitate to take such an initiative unless it knew in advance that its initiative would be well received. He said that the ground might be prepared by most informal approaches. Thus, if it were intimated by us that we would welcome such an initiative on the part of the British Government, the British Government would then be in position to move. At that point I suggested that informal approaches might just as easily take the form of an inquiry from the British side asking whether we would be agreeably disposed toward such an approach. Lord Lytton indicated assent.

At two points in the conversation, Lord Lytton pointed out that he was expressing purely his own opinions and was not endeavoring in any sense to interpret, to indicate or to imply the mind and thought of the British Government. He stated, however, at one point that he had expressed to Sir John Simon [53] substantially the same views that he was expressing to me.

S[TANLEY] K. H[ORNBECK]

793.94/6869 : Telegram

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

NANKING, February 14, 1935—4 p. m.
[Received February 14—8 a. m.]

32. On the evening of February 13 the Acting Minister for Foreign Affairs gave an interview to a group of Chinese newspaper representatives. As reported to me orally, they asked him whether the Japanese Minister for Foreign Affairs was coming to China and he replied evasively. They called attention to the reports of proposals made to China by Japan for economic cooperation and asked him what his attitude was. He replied that the primary essentials for China at present are peace and reconstruction and he said that the Chinese Government would be willing to accept economic assistance from any nation which offered it on a basis of equality and reciprocity.

PECK

[53] British Secretary of State for Foreign Affairs.

793.94/6874 : Telegram

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

TIENTSIN, February 15, 1935—noon.
[Received February 15—7:58 a. m.]

1. Major General Doihara left Tientsin February 13 for Tsingtau, Shanghai and Nanking. Confidential authoritative sources allege his mission to be as follows: As a representative of Kwantung Army to assure Chinese authorities that Kwantung Army will not come south of Great Wall and in the interest of Sino-Japanese relations to investigate boycott and other conditions throughout North and Central China and to cultivate good feeling.

2. Doihara while in Tientsin was cordially received and entertained by Chinese officials, but whether any fresh settlements or decisions as a result of conferences with North China leaders were reached has not been officially revealed but indications are that discussions took place on issues involving so-called demilitarized zone such as activities of ruffians in zone, retrocession of Malanyu and replacement of armed police. Unconfirmed newspaper reports state today, however, that agreement on policy of this Government of demilitarized zone and type of arms to be used have since been concluded.

3. Careful investigations here fail to confirm Shanghai press reports of revolt of "Manchukuo" troops stationed at Chinchow although well-informed Chinese admit possibility of bandit disturbances near that city which is center of such activities. Copy to Legation.

LOCKHART

793.94/6876 : Telegram

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

SHANGHAI, February 18, 1935—4 p. m.
[Received February 19—10:35 a. m.]

73. Major General Kenji Doihara, well-known Japanese militarist arrived from Japan on the 16th. He called yesterday upon Mayor Wu Te-chen and General Huang Fu, chairman of the political affairs readjustment committee of Peiping. He is quoted in the press as emphasizing that all anti-Japanese activities in China must be discontinued before a Sino-Japanese agreement can be reached. Repeated to Legation.

CUNNINGHAM

500.A15A4/2641

The Chief of the Division of Far Eastern Affairs (Hornbeck) to the Counselor of Embassy in the United Kingdom (Atherton)

WASHINGTON, February 19, 1935.

DEAR RAY: I am very glad indeed to have your letter of January 29 containing further information in regard to the British view of the Japanese question.

We have welcomed heartily your thoughtful reports on this matter, and in relation to a subject as important as is this I think you need have no fear either that you are sending us too much or that what you send may not be of definite value. I can assure you that it is a source of constant gratification to all of us who are interested in the situation in the Far East—and I think that category includes an ever-widening group—to have an officer at London who, as do you, thoroughly understands British policy in general and can see the Far Eastern aspect of that policy in its proper perspective and relationship to British policy as a whole.

I think that we have gained—from your reports and from our observation of the action and attitude of the British Government in various situations relating to the Far East that have occurred during the last few years—a substantial understanding of the British position. I think also that we appreciate the difficulties which the British face and the considerations that mould their views and motivate their action. In last analysis Britain's decision in any given situation will rest upon her conception of how best to protect and advance British interests. The same thing holds true—or should—for the United States. Insofar as the Far East is concerned, I think that American and British objectives are fundamentally the same. When we differ in views with regard to the method best calculated to attain those objectives, we cannot expect that the British will accept in all instances and in all circumstances our point of view. We should, however, be able to expect that they will endeavor to appreciate our point of view just as we endeavor to appreciate theirs.

You state that "Great Britain does not feel she can afford to permit a Far Eastern crisis to develop". We also, of course, desire that such a development be avoided; but there may be some difference in the British and the American point of view in regard to the implications of the word "afford". I do not think that either country wishes to sacrifice anything that is derogatory of sovereign rights. You state further that Great Britain "likes to feel that the threat in the Pacific is rather evenly divided between the British Empire and the United States". At times this seems to us something like "wishful thinking", although I am free to admit that, notwithstanding Great

Britain's proportionately larger share, as compared with the United States, of tangible interests in the Far East, there are in the situation intangible and psychological factors which tend to make the threat to the United States as great—ultimately but not immediately—as the threat to the British Empire.

Turning to the article quoted by you from the *Economist*, the writer thereof suggests that economic nationalism be curtailed and that Japanese trade be granted access to the world market. By such means, the writer envisages a development whereby Japan would not extend "her own national domain over the rest of the Far East". I think that you are familiar with the Secretary's views in regard to the subject of economic nationalism and to the efforts that he is putting forward directed against the further development of it. Progress in that endeavor must, I think, be necessarily slow. I think also that we must recognize that the trend in the world today is definitely toward economic nationalism. Whether that trend can be stopped and the movement be changed to a contrary course before economic nationalism is carried to such an extreme as to cause a general revulsion (by natural processes) from it, remains to be seen.

It seems to me that in the present situation in the Far East there is little that the United States can do other than what it is doing. When confronted with common problems and common dangers, we expect as heretofore to confer with the British to the end that there may be, whenever and wherever practicable and appropriate, cooperation. With American thought and American political machinery what they are, alliance—defensive or offensive—between the United States and Great Britain is out of the question. But I think we can expect to give and to obtain from Great Britain cooperation along a good many lines. The thing most needed, however, throughout Anglo-Saxondom is "education", a bringing about of more widespread consciousness of our essential community of interests and objectives. Cooperation cannot, in my opinion, be forced. The desire to cooperate must grow and must be widespread among the peoples concerned. The development of it takes a long time.

With all best wishes,

Yours sincerely, STANLEY K. HORNBECK

793.94/6880 : Telegram

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

PEIPING, February 21, 1935—noon.
[Received 1:35 p. m.]

84. Reference Legation's telegram 60, February 3, 3 p. m. and paragraph 6 of telegram 66, February 7, 2 p. m. According to

Chinese News Agency Wang Ching-wei spoke February 20, on Sino-Japanese relations before Central Political Council. Referring to speech of January 21 of Japanese Minister of Foreign Affairs, Wang stated that China chooses, under the principles of equality and mutual assistance, to maintain and promote friendly and peaceful relations with any country, "not to mention a neighbor like Japan whose geographical, historical, cultural, and racial relationship with this country is so closely bound." Wang recalled with emphasis that Sun Yat-sen had said at Kobe in 1924 that Japan and China should work hand in hand. Wang said that this was the basis of Sun's Sino-Japanese policy throughout his life. Wang recalled the sympathy of Japanese for China down to the revolution, mentioned the unfortunate complications which have developed during the past 20 years, and stated that he believes these complications can be solved by mutual sincerity. Again referring to Hirota's speech, Wang said that "now that China and Japan have expressed their common desires, it is a matter of great rejoicing for us that by dint of mutual efforts Sino-Japanese relations will henceforth have an opportunity to improve as well as to be restored into regular channels." He further expressed the wish to solve all complications sincerely and pacifically so that all mutual suspicions and all speeches and actions, repulsive and detrimental, might gradually be eradicated and so that the hope of close friendship as emulated by Sun Yat-sen might be realized.

This speech appears to be yet another cautious move in the regimentation of public opinion toward acceptance of Sino-Japanese "cooperation". With regard to Chinese feeling not much outspoken expression in the press can be anticipated because of government control. Comment which has appeared so far has been critical of and unsympathetic toward Japan. The intelligent Chinese of Peiping show acquiescence in or resignation to the inevitableness of Japanese domination over China for the next generation or two. It is believed that recent developments have caused apprehension among western educated Chinese with reference to their future influence and position in the Government and their participation in the development of China. The Legation will continue to watch Chinese reaction.

Sino-Japanese conversations apparently are continuing at Shanghai and Nanking, the latest Japanese participant being the well-known Major General Doihara who already conferred with Wang Ching-wei.

For the Minister:
GAUSS

793.94/6879 : Telegram

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

NANKING, February 21, 1935—4 p. m.
[Received February 21—11 : 35 a. m.]

37. My 28, February 11, 11 a. m.

1. I respectfully invite the Department's attention to published accounts of address delivered by the Chinese Minister for Foreign Affairs to the Central Political Council on December [*February*] 20 described by him as an explanation of China's policy toward Japan. The address advanced various reasons for special friendship between the two countries including sentiments uttered by Sun Yat-sen in a speech delivered at Kobe, 1924.

2. Press reports here are to the effect that Wang Chung-hui [54] called on the Japanese Premier and Minister of War on February 20th.

3. Report not yet confirmed has been received that the Japanese Government has extended an invitation to the Chinese Government to send an economic mission to Japan and that the Chinese Government will find it impossible to refuse.

PECK

793.94/6887 : Telegram

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

NANKING, February 27, 1935—3 p. m.
[Received February 27—2 p. m.]

42. 1. Tang Yu-jen, Administrative Vice Minister for Foreign Affairs, called on me February 23 and stated he desired to outline present situation between China and Japan. He said both those countries were in agreement that question of Manchuria could not be discussed because settlement at present was impossible. Only in economic field were discussions possible and the Japanese military were anxious to bring about understanding in this field, showing evidence of change of attitude from despair, to one of finding solutions by negotiation. The change was due to threatened increased expenditures of civil side of Government in Japan and resulting eagerness of Japanese Army to effect friendly settlement with China in order to maintain its dominant position in home politics.

2. He stated two economic problems were pressing: one was Chinese remittances of profits and wages from Manchuria to China amounting

[54] Judge, Permanent Court of International Justice at The Hague.

to some $150,000,000 and flowing from Japanese investment of over 200,000,000 yen, [the] other was China's balance of trade with Japan. Loss of Manchuria by China and of Manchurian bean trade and loss of Manchurian market for Shanghai, Tientsin and Tsingtau piece goods accounted to large extent for unbalanced situation.

3. Mr. Tang said some way must be found whereby trade between China and Japan could be increased but China would have to put certain restrictions on Japanese imports into China because problem could not be solved if Japan's exports to China were same as goods already manufactured in China. Any arrangement with Japan, particularly in reference to increased use of Chinese cotton, must reflect adversely upon trade between United States and Japan; it was hope of Chinese Government that whatever arrangement might be reached with Japan as little damage as possible would result to American trade. He offered to keep me informed of any progress in such discussions and hoped that in view of known interest in United States in reciprocal trade understandings some common basis for exchange of information in this respect might be reached.

JOHNSON

793.943 Manchuria/5

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

No. 3382 PEIPING, February 27, 1935.
[Received March 23.]

SIR: I have the honor to enclose a copy of the Mukden Consul General's despatch to the Legation No. 51 of February 16, 1935, in regard to the possible relinquishment by Japan of its extraterritorial rights in "Manchukuo".

Mr. Ballantine expresses the belief that present developments indicate that the relinquishment by Japan of extraterritorial rights in "Manchukuo" will probably not be long delayed, and suggests the possible desirability under those circumstances of withdrawing American consular representatives from Manchuria.

The Legation is refraining from issuing instructions to the Consul General in this matter until it has received any comments the Department may care to make. In the Legation's opinion, however, it is difficult to perceive how the relinquishment by Japan of extraterritorial rights in "Manchukuo", even though coupled with an attempt by the "Manchukuo" authorities to assume jurisdiction over American nationals as anticipated by Mr. Ballantine, would warrant the withdrawal of American consular representatives. On the contrary, it would appear to the Legation that under those circumstances the serv-

ices of American consular representatives would be even more necessary to the protection of American interests than at present.

In the somewhat analogous situation arising out of the treaty of annexation between Korea and Japan in 1910, American consular representatives appear to have continued to be of considerable service to American interests, particularly in relation to their property rights. (*Foreign Relations of the United States* 1910, pages 681 *et seq.*, 1911, pages 320 *et seq.*)

The British Legation states that this question has not yet been raised by any of its consular representatives in Manchuria.

Respectfully yours, For the Minister:
C. E. GAUSS
Counselor of Legation

[Enclosure]

The Consul General at Mukden (Ballantine) to the Chargé in China (Gauss)

No. 51 MUKDEN, February 16, 1935.

SIR: I have the honor to enclose a clipping from the *Manchuria Daily News* of February 14, 1935,[55] containing an announcement by the Japanese Embassy at Hsinking of the formation of a preparatory committee in Japan for the consideration of the relinquishment by that country of its extraterritorial rights in "Manchukuo", together with a statement issued by the Foreign Office at Hsinking expressing its gratification over that action.

There is also enclosed a copy of an article which appeared in the same journal on February 15, 1935,[55] purporting to be a Tokyo despatch to the Dairen Shimbun stating that the plan now being considered is to engage Japanese judges for the "Manchukuo" courts, to sit in cases involving Japanese, so that the abolition of extraterritoriality may be effected even before the "Manchukuo" judicial system has been perfected. It is further noted that the proposed budget for the "Manchukuo" Government for the next fiscal year contains an estimate for preparatory work for the abolition of extraterritoriality.

Developments are taking place so fast in this direction that the relinquishment by Japan of her extraterritorial rights will probably not be long delayed. As it is likely that when this happens "Manchukuo" may unilaterally declare the extraterritorial status of other nationals at an end, I venture to suggest that consideration must be given to the policy which our Government should follow in such an event.

[55] Not printed.

I presume that the United States could not acquiesce in any attempt on the part of the "Manchukuo" Government to assert jurisdiction over American citizens and their property so long as the "Manchukuo" Government is not recognized, since such acquiescence might immediately precipitate difficulties in connection with the maintenance of our extraterritorial rights in China. In other words, our attitude on this question would, in my opinion, be governed not by a consideration of the degree of judicial progress which has been attained in "Manchukuo", but by the consideration of how our interests in China are affected.

In the event that the "Manchukuo" Government does in the future attempt to assert jurisdiction over American citizens, and protests by all means at our disposal are ineffectual, it would seem that the only course open would be to withdraw our consular representatives from Mukden and Harbin. I do not know how extensive American interests in Harbin are, but I foresee that, in Mukden at least, within a few years our interests will become greatly curtailed. Messrs. Andersen and Meyer, the principal American general importing firm, has already given up its branch here, the National City Bank have announced that they are closing theirs on May 31, and when the Petroleum Monopoly Law goes into effect, as it seems almost certain to do sooner or later, the Standard Vacuum Oil Company and the Texas Company will be out of business here.

With these firms eliminated, the remaining American interests, (other than agencies and minor offices in charge of Chinese or Russians) and the number of their American personnel, including members of their families will be as follows:

Name of American Interest	*American Personnel*
Catholic Mission	31
American Presbyterian Mission	2
Seventh Day Adventist Mission	27
Assemblies of God Mission	3
Frazer Federal Inc. U. S. A.	2
Singer Sewing Machine Co.	1
Total	66

There are in addition 20 white Americans connected with non-American firms and organizations, 8 white Americans in miscellaneous employment, and 7 American citizens of the Japanese race, of whom all except one are connected with the "Manchukuo" Government.

Since effective consular protection could not be extended to the remaining American interests if extraterritoriality were unilaterally abolished in "Manchukuo", there would be some justification to the view that it might be less detrimental to our interests to withdraw consular representatives than to have them remain.

Respectfully yours, J. W. BALLANTINE

793.94/6889 : Telegram

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

SHANGHAI, March 1, 1935—6 p. m.
[Received March 1—7 : 11 a. m.]

97. 1. *The North China Daily News* today publishes article to the effect that Japanese proposals for *rapprochement* with China had been made. Essential part of article is quoted below.

2. "Authoritative circles, both foreign and Chinese, had heard reports to this effect yesterday and, in spite of denials of any special policy towards China given out in Tokyo, believed them. It was also reported that, subject to the conversations to be held between Major General Doihara and the leaders of the Southwest, at [*a*] time limit for China's compliance with the organ [*Japanese*] terms had been set. Summarized the terms were [*are*],

(1) Complete elimination of anti-Japanese propaganda from all text books used in Chinese schools.

(2) Engagement of Japanese advisers by the National Economic Council.

(3) Financial arrangement for the funding of all or part of the unrecognized loans to China such as the Nishihara loans.

(4) Substitution of Japanese for the German military advisers [and instructors] now employed by the Nanking Government, and,

(5) In return a loan to be floated in Japan to assist China in her present [urgent] financial necessities."

3. The authorities placed time limit of acceptance between 6 and 9 months. Spokesman of Japanese Legation stated in denial that "so far as I know there have been absolutely no concrete proposals made either by ourselves or by the Chinese. We have discussed matters upon which we disagreed. We have said 'this should be put right—and this', and we have talked over how it should be done. And we now believe that each side clearly sees the other's position and that we can see what to do about it.

The only thing that seems to be true in these reports is our stand about anti-Japanese propaganda."

As to the advisability of eliminating anti-Japanese propaganda from text books, he continued:

"We would not dream of trying to make the Chinese change their history. What we have endeavored to rectify is the anti-national teaching—the teaching that fosters or creates hatred against the Japanese nation. If this hatred is to persist there will never be the friendship between Japan and China that is necessary here for both nations.

So far as loans go I can assure you that there has never been any official talk of a loan by Japan to China. Dr. Wang Chung-hui in

Tokyo is not discussing any such thing and it has not been officially considered by us here. There are plenty of things to be cleared up before we can begin talking about loans. In fact I understand that three [*the*] Chinese bankers actually don't want a loan. They say that it is not needed at present."

In regard to world-wide rumors as to Japan's desire to dominate China he continued:

"We are convinced that mutual relations with China mean the restoration of confidence in this country. With confidence returned China can set herself to really constructive work and that means enlarged business opportunities for all. Talk of Japan wanting to shut the 'open door' in China is simply ludicrous."

4. Lieutenant Colonel Kagesa, Assistant Japanese Military Attaché, stated that the suggestion that Japan had made any demands or conditions that would be [*as regards*] the employment of foreign advisers by the Chinese executive departments [*Army*] was, however, miscorrect [*a misconception*] and continued:

"In his recent conversations with General Chiang Kai-shek, General Suzuki, our Military Attaché, pointed out that the employment of foreign advisers to the exclusion of Japanese [might be looked upon as discriminatory]. He urged that Japan should be given equal opportunity with other powers to provide advisers.

He also directed General Chiang's attention to the fact that the maneuvers carried out occasionally by the Chinese Army seemed to be directed against Japan as a potential enemy. He said that this might be interpreted in an unfriendly light and suggested that in view of the better relations between the two countries the system should be modified.

General Suzuki at no time made any 'demands'. He simply suggested to General Chiang that certain things might be misinterpreted by Japan and that in the interest[s] of all concerned these possible cases [*causes*] of friction should be remedied.

Also no demands were made by General Doihara during his visit to Nanking."

Repeated to Legation.

CUNNINGHAM

793.94/6888 : Telegram

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

TOKYO, March 2, 1935—1 p. m.
[Received March 2—5 : 38 a. m.]

43. In the course of my talk with the Minister for Foreign Affairs this morning he brought up on his own initiative the subject of Sino-Japanese relations and talked at considerable length along the follow-

ing lines. Since the first of the present year the Chinese Government has awakened to the prime importance of developing better relations with Japan. The recent conversations in Nanking have been confined to efforts to improve the general atmosphere by reducing anti-Japanese sentiment and agitation. No concrete negotiations whatever have been undertaken. The Minister feels that improved relations between Japan, China and Soviet Russia are the primary desiderata which will eventually lead to the solution of the naval and other problems and he is, therefore, concentrating his efforts in that direction. After the Diet adjourns he expects to call Ariyoshi to Tokyo to consider this whole question. Hirota is convinced of the desire of the authorities in Nanking to cooperate. He referred to China's financial difficulties as one of the principal stumbling blocks to improvement and he observed that these difficulties concern other nations also. He said that his efforts to construct a solid basis for peace in East Asia must necessarily work out slowly and step by step and in the meantime he hoped for the confidence of other powers. He said that the foreign press, particularly certain newspapers in London, were constantly publishing erroneous reports and insinuations and he, therefore, wished me to know the facts as he had set them forth.

As for Soviet Russia Hirota hopes that the agreement for the sale of the Chinese Eastern Railway can be signed before the end of the present session of the Diet and that other pending problems can then be approached and readily solved.

Repeated to Peiping.

[redacted] GREW

893.00/12980 : Telegram

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

CANTON, March 3, 1935—6 p. m.
[Received 10 p. m.]

Referring to my telegram of February 21, 4 p. m.,[56] after unexpected silence at the time of the Chahar incident Hu Han-min made statement to press on March 1st denouncing Wang Ching-wei's recent statement of policy as tantamount to declaration that China is protectorate of Japan. Hsiao Fu-chen has also issued denunciatory statement characterizing Wang and Marshal Chiang as betrayers of China. Hu's statement no novelty but interesting in that it was issued on day previous to Major General Doihara's call on Hu. Former arrived Canton this morning and is scheduled to confer with highest officials tomorrow afternoon. Hu today issued press statement as to interview in which he alleges he insisted that unless Japan "corrects all errors made and

[56] Not printed.

treats China with equality" cooperation between the two countries is impossible. Local authorities characterize Doihara's visit as "of no substantial diplomatic significance." While certain Southwest leaders support Hu and Hsiao number of others appear convinced that western powers have signally failed China and that Nanking has no option in the matter of new alliance.

2. According to local reports westward movements of Communist forces referred to in paragraph 3 of my telegram of February 21, 4 p. m., were blocked by Yunnanese who forced enemy to evacuate Yentsing on February 18th and other places occupied in Northern Yunnan towns following week, Communists then moving eastward into Kweichow occupying Chihshui on February 22nd, Tucheng on the 23rd, then continuing eastward. Other forces took Sungkan and Tungtze on the 25th and 26th, the Northern forces falling back to Tsunyi and Kikiang respectively. These Red forces believed to be endeavoring to join Ho Lung and Hsiao Ko on Hunan-Szechuan-Kweichow border. Synchronizing with this eastward thrust through North Kweichow between six and nine thousand Communists under Yeh Chien-ying are reported to have made sudden southward movement from Hingkwo and Yutu, Kiangsi, then with others from Anyuan, swung westward against Sinfeng and Nankang in Southern Kiangsi, allegedly with the intention of crossing Southern Hunan en route to join Ho Lung and others in area named above. Heavy reenforcements were rushed by General Yu Han-mou and Northern leaders to Sinfeng, Nankang and Kanhsien areas on February 28th to meet this threat and heavy fighting is reported to be in progress.

3. Troop movements from Canton westward have ceased but local leaders state that Kwangsi troops in Kweichow and Kwangtung troops in Kwangsi will remain where they are now pending clarification of the Kweichow situation. In the meantime Northern leaders in Kweichow are reported to have completed plans for rerouting of that Province's trade to the Yangtze. Once conditions permit of such rerouting Kwangsi and Kwangtung will be deprived of large revenue hitherto obtained from Kweichow trade. Southern military leaders further disquieted by this added evidence of Nanking's tightening grip, also by attitude of Yunnan leaders in relation to Nanking's military appointment of Yunnan leaders to command of Communist forces along Yunnan Kweichow frontier, thus snubbing leaders of Kwangtung-Kwangsi joint expedition to Kweichow.

4. Admiral Kiang returned to Canton for conference after his two cruisers referred to in my telegram February 21, 4 p. m., were at Hong Kong for cleaning of their hulls. Both cruisers returned to Whampoa on February 28th.

SPIKER

792098—53——12

793.94/6923

The Chinese Legation to the Department of State [57]

Speaking before the Central Political Council on February 20 on the subject of Sino-Japanese relations Mr. Wang Ching-Wei, President of the Executive Yuan, commented on Mr. Hirota's speech which was recently delivered in the Japanese Diet in the following terms:

"The speech delivered by Mr. Hirota, the Japanese Foreign Minister, on January 23 before the Japanese Diet concerning the Japanese policy towards China has been fully reported by foreign as well as Chinese newspapers. As a matter of fact important journals in various countries have published numerous comments on it. It is therefore unnecessary for me to repeat it to you here.

"It is my intention today to acquaint you with my personal reactions towards Mr. Hirota's speech. In a way what I am going to say may also be taken as an explanation of our fundamental policy towards Japan.

"In order to modernize China we must direct our attention to two important prerequisites, namely—'unification' and 'reconstruction'. We have been handicapped by institutional deficiencies and economic backwardness as well as by lack of communication and educational facilities. To realize our aims in unification and reconstruction we must have durable peace. But in this modern world where communications have become so highly developed and where political and economic interrelationship among nations has grown so close our love for peace must be taken in its broadest sense. For besides working for peace in China we also wish other countries themselves to have peace. Indeed we particularly wish that in international intercourse peace may be definitely guaranteed. For this reason China is willing under the principles of equality and mutual assistance to maintain and promote friendly and peaceable relations with any country not to mention a neighbor like Japan whose geographical, historical, cultural and racial relationship with this country is so closely bound.

"It may be recalled that our late leader Dr. Sun Yat-Sen said in the course of a speech which he delivered at Kobe on November 28, 1924, that 'considering the relationship between China and Japan in all respects the peoples of the two countries should work hand in hand and cooperate in the advancement of the welfare of the two countries'. It was Dr. Sun's last speech and is well remembered by all his followers. It was the basis of his Sino-Japanese policy to which he adhered all his lifetime.

"Even from the standpoint of our revolution it may also be recalled that from the day of Chung Hsin Hui through the period of Tung Meng Hui down to the Revolution in 1911 we have received considerable help and sympathy from Japanese friends whether officials or non-officials. These facts are no doubt still within the memory of those who participated in the revolutionary work. Bearing this point in mind it may be seen how intimate the relations between China and Japan should be.

"But unfortunately not only no real friendship has been cultivated

[57] Copy transmitted to the Department by the Chinese Minister about March 4.

between China and Japan but also for the last twenty years unexpected complications have continually arisen between the two countries and what is more unfortunate these complications have become more and more serious and dangerous in nature. In consequence not only have the relations between the two countries grown worse but even the whole world has found itself in an atmosphere of insecurity. This must certainly be regarded as a deplorable state of things not only by the two countries concerned but also by the whole world.

"It is true that we are now in the midst of a national crisis of the severest nature but we are confident that since the relations between the two countries have had a history of such long duration troubles as existing at present can after all be solved by means of mutual sincerity.

"After reading the speech recently delivered by the Japanese Foreign Minister Mr. Hirota we are of the opinion that generally it agrees in spirit with what we have hitherto advocated. Now that China and Japan have expressed their common desires it is a matter for great rejoicing for us that by dint of mutual efforts Sino-Japanese relations will henceforth have an opportunity to improve as well as to be restored into regular channels.

"Now I wish to emphasize with all frankness and seriousness that we wish to solve all complications between the two countries with fullness of sincerity and through pacific means as well as by regular procedure so that all mutual suspicions and all speeches and actions mutually repulsive and detrimental may be gradually eradicated and that the hope of close friendship between the two countries as entertained by our late party leader Dr. Sun Yat-Sen may be realized.

"In a word if the people of China and Japan will not cling to their immediate interests nor mind temporary feelings but will show each other mutual sincerity and stand for righteousness in order to work for a durable peace between the two countries then it is quite certain that a rational solution of fundamental issues between the two countries will be obtained. This will be a blessing not only for the two countries and for eastern Asia but it will be also the greatest contribution to peace in the world."

The generalissimo opines that Japan should forsake the doctrine of "might is right". In an interview at Kuling on February 16 views were frankly expressed by General Chiang Kai-Shek on the Sino-Japanese situation and the fundamentals upon which cooperation between the two countries should be based. In an interview recently granted to Mr. Miyasaki, representative of the Osaka *Asahi* in Kuling following were the interviewer's questions and the generalissimo's answers:

Question. For the welfare of East Asia there is necessity for China and Japan to cooperate with each other. What should be the method of cooperation?

Answer. Not only for the welfare of the Far East but also the welfare of the world as well it is necessary for China and Japan to cooperate; because on the one hand these two countries are only independent members of the Far East and on the other also important members of the world. Sincerity and justice are the first funda-

mentals upon which cooperation should be based and only through them could true cooperation be fully realized.

Question. Kindly let me know without reserve Your Excellency's opinion about Japan and the Japanese.

Answer. We have always admired your people for the rapid progress you have made since your reformation and respected the virtues characteristic of your people such as patriotism, filial piety, courtesy, diligence and thrift. But if you should forsake the original spirit of Oriental civilization and be influenced by the Doctrine that "Might is right" it would be a great pity.

Question. Is there any good basic solution for the present Sino-Japanese trouble?

Answer. From the beginning I have been convinced that sincerity and justice are the basic principles for the solution of the present Sino-Japanese trouble. Since you are also eager to have Sino-Japanese cooperation as a reality you should take into consideration the national psychology of the Chinese people. As a matter of fact China originally did not entertain any anti-Japanese feeling; furthermore in my opinion there should be no necessity to do so. But we Chinese have generally harbored deep resentment against the Ching Dynasty,—that is to say against the rule of the Emperors of Ching. After a struggle of 300 years we have at last succeeded in emancipating ourselves from the yoke under the rule of an alien race and I fear this feeling has been aggravated by the northeastern situation. Furthermore the northeastern situation as it exists today is daily an added grievance to our people and due to repeated provocations it would be impossible to eradicate this resentment without removing the cause. We should not therefore neglect to take into consideration our people's attitude as an important factor in the realization of Sino-Japanese cooperation.

Question. What is Your Excellency's opinion concerning the suppression of the anti-Japanese attitude and the improvement of feeling between these two countries, especially from an educational point of view?

Answer. China has ever upheld sincerity, justice and peace in order to establish close cooperation with friendly powers and has never harbored enmity against any. We have adopted the same policy in our education, the principal aim of which is to develop righteousness, kindness and the spirit of mutual cooperation; and any action contrary to this spirit which might foster a sentiment of hatred should be rectified so as to maintain a wholesome national atmosphere. However the same attention and effort to this end should be paid and directed by all parties. And most important of all acts of aggression and humiliation should be avoided in order not to wound and stir up our people to a sense of unrighted wrongs. Realization of this fact would make possible the improvement of better relations between the two countries.

Question. Will you please let me have an expression of your opinion regarding economic cooperation between China and Japan?

Answer. Regarding this question it is necessary first to better the present condition of these two countries by the restoration of normal relationship. Then reasonable and purely economic cooperation for mutual benefit both can follow for which there is not only a possibility but also a necessity. However for real cooperation we

must have the spirit of mutual sincerity and helpfulness without harboring ulterior motives.

Question. What is your Excellency's opinion regarding Mr. Hirota's speech on China's Policy?

Answer. Although Mr. Hirota's speech on China's Policy is somewhat vague yet we are much interested by it for at least it seems to be the turning point for the improvement of Sino-Japanese relationship. I believe Mr. Hirota will be able to substantiate his speech by subsequent actions which will enable our people to have a new conception of Japan.

Question. Regarding steps taken by the Kuomintang for the restoration of racial prestige they seem a bit too hasty and would naturally lead to anti-foreign tendencies especially fostering trouble between China and Japan. What is Your Excellency's opinion on this point?

Answer. Dr. Sun Yat-Sen's national revolution aims at China's self-determination and equality with other powers. China is now striving to build herself up as a modern nation based on the spirit of independence and self-reliance. Such action I think should not cause any international entanglement.

Question. In the past it has been the belief of Japan that the most effective way in dealing with China was through diplomatic negotiation; according to my opinion, however, sincerity is the best means to be employed in the future; what do you think, Your Excellency?

Answer. I believe that the only way for a solution of the Sino-Japanese question is justice through diplomatic negotiation.

Question. Regarding the doctrine of "greater Asia" as promoted by Japan will you please give your criticism without reserve from the Chinese point of view?

Answer. Concerning this question please refer to Dr. Sun's writings which will give you a clear understanding of my ideas on the subject.

Question. According to my personal idea China should have a dictatorship to a certain extent. What is Your Excellency's opinion?

Answer. The conditions in China are quite different from Italy and Germany so a dictatorship is unsuitable for her.

Question. May I ask which figure in Chinese history Your Excellency admires most?

Answer. There are many sages and philosophers in historical China who are worthy of our admiration. However, Dr. Sun Yat-Sen is a man whose teachings I have followed and will uphold for the rest of my life.

793.94/6896 : Telegram

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

SHANGHAI, March 6, 1935—5 p. m.
[Received March 6—2 : 35 p. m.]

107. Referring to my telegram 97, March 1, 5 [*6*] p. m., résumé published in *North China Daily News* is believed to have been made by

Japanese military to Japanese Foreign Office and dead line of 6 to 9 months as stated in paper was fixed as of June 1st. This opinion was confirmed on March 4th by T. V. Soong in interview with Captain McHugh.[58] He stated in same interview that report in *North China* was substantially correct but that so far as he knew the demand was but orally one [*made?*].

2. It is interesting to note that Soong in conversation with McHugh stated that there were three points of view in China towards Japan: (1st) those who are suspicious, the idea of beware of Greeks bearing gifts; (2d) large masses of ignorant and unfortunate people who blame Japan for everything and want nothing to do with her; and (3d) those who realize that although distasteful it is advisable to get along with Japan in order to avoid further aggression. The impression was gained that Soong had recently been won over to a certain extent to the third class and if so his recent conversations with the Generalissimo of [*in?*] Hankow are probably responsible for his change of attitude.

3. In reference to alleged proposal of joint loan to China by signatories to Nine-Power Treaty, and published statement that Japan would consider any joint loan to China at this time as attempt at international control, Mr. Soong stated that the idea should be given serious consideration but added that Japanese were very insistent in London last year that they should be included in any international loan to China and opposed for that reason the French consortium proposal and that if Japanese authorities were now opposed to nine-power loan it would indicate a very sudden change of view. He also stated that the fact that British had initiated discussions with the United States at this time was significant that British are beginning to wake up. He expressed the view that Anglo-American cooperation is the only sound solution of the Chinese situation but did not believe this could be effected for 2 or 3 years; that there must first be an attempt at Sino-Japanese cooperation though he believed the Japanese would attempt to dictate and monopolize rather than advise and assist.

4. Many expressions of gratification have been heard locally regarding press report that Great Britain had approached the United States for the purpose of arranging consortium loan to China. Repeated to the Legation.

CUNNINGHAM

[58] Capt. J. M. McHugh, Intelligence officer, U. S. 4th Marine Regiment at Shanghai.

*

893.102S/1342 : Telegram

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

PEIPING, March 7, 1935—5 p. m.
[Received March 7—7 : 52 a. m.]

109. Department's 67, March 6 [6 p. m.][59] in regard to defense scheme at Shanghai.

Consul General has discussed matter with the commanding officer of the Fourth Marines who is endeavoring to obtain consent of the garrison commanders to the revised phase suggested by the Department. He is sanguine of success.

Although pressed to do so Cunningham[60] has not reported any action toward obtaining consular representation on the defense committee. He is being requested to expedite his report.

JOHNSON

793.94/6901 : Telegram

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

PEIPING, March 9, 1935—7 p. m.
[Received March 9—9 : 16 a. m.]

111. Following telegram has been received from Canton.

"March 7, noon. Am authoritatively informed that Doihara in separate conversations referred to in my telegram of March 5, 4 p. m., unmistakably indicated that while diplomatic party in Japan had reached final oral agreement with Nanking and while Japanese Navy party tacitly approved agreement it cannot be finally concluded without the approval of military party which is represented by Doihara and will withhold judgment until assured of Chiang Kai-shek's sincerity toward Japanese military as well as diplomatic party, and, second, the toleration if not approval of the agreement by the Southwest and other non-Nanking political groups. Kwangtung leaders inclined to discredit Japanese military leaders [and] may attempt to reach 'compromise agreement' with other Chinese leaders thus nullifying Japanese party's coup at Nanking. Doihara however is reported to have brought no proposal to Southwest leaders whose separate declarations as to their attitude accord with Hu Han-min's declaration. Doihara now visiting Kwangsi leaders."

JOHNSON

---

[59] Telegram stated: "Please telegraph present status of this matter." (893.102S/1329). See Department's telegram No. 385, December 14, 1934, 8 p. m., *Foreign Relations*, 1934, vol. III, p. 340.

[60] Edwin S. Cunningham, Consul General at Shanghai and Senior Consul.

893.1028/1343 : Telegram

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

PEIPING, March 11, 1935—3 p. m.
[Received March 11—7 : 15 a. m.]

113. Legation's 109, March 7, 5 p. m., regarding Shanghai defense scheme. Consulate General reports that question of consultative consular representation has been taken up orally without definite results. Both matters will receive further attention upon return to Shanghai of Colonel Beaumont [61] who is now in Peiping.

JOHNSON

861.77 Chinese Eastern/1386 : Telegram

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

TOKYO, March 12, 1935—7 p. m.
[Received March 12—10 : 20 a. m.]

52. The Soviet Embassy has confirmed the truth and accuracy of the Rengo translation of the Foreign Office statement concerning the initialing of documents relative to the sale of the Soviet rights in the Chinese Eastern Railway to "Manchukuo". The Soviet Embassy predicted that the formal signing would take place on March 22 or 23 and stated that the whole agreement would then be published.

The spokesman of the Foreign Office has assured the Associated Press representative that no specific mention of recognition of "Manchukuo" by the U. S. S. R. occurs in any of the documents initialed yesterday.

GREW

793.94/6920 : Telegram

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

PEIPING, March 16, 1935—2 p. m.
[Received March 16—8 a. m.]

119. Reference Legation's 84, February 21, noon, according to a Chinese news agency an address by Sun Fo, President of the Legislative Yuan, on Sino-Japanese relations was broadcasted March 12, in Japan as part of Japanese commemoration of tenth anniversary of the death of his father Sun Yat-sen. During the address, which was more cordial and warmer than recent statements by Wang Ching-wei and Chiang Kai-shek, Sun Fo dwelt on the "enthusiastic assistance

[61] Col. John C. Beaumont, commanding the 4th U. S. Marine Regiment at Shanghai.

and sincere friendship" of Japanese for his father when he was alive, and the present sympathy of many Japanese for his principles; referred to the suffering caused by the encroachment during the past 100 years of Europe and America and the realization during the past 50 years of Japanese and Chinese that this is a period of struggle of the yellow race for existence; and said that close neighbors like Japan and China should join hands, mentioning the similarity of race, language, philosophy, et cetera. Commenting on the fact that the relations of the two countries have frequently been bad notwithstanding their spiritual kinship, he mentions the recent turn for the better in those relations and recommends for its fulfillment observation of Sun Yat-sen's policy of "Greater Asia".

The principal significance of Sun's address seems to be that, believing that relations between China and Japan will become increasingly closer, he thinks it is for the sake of his political future to align himself with the so-called pro-Japanese party.

JOHNSON

761.94/821 : Telegram

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

Moscow, March 16, 1935—2 p. m.
[Received March 16—12: 58 p. m.]

108. Soviet press released yesterday a statement given by Litvinov [62] to *Nichi Nichi*. He stated *inter alia*

"As regards the question of the so-called demilitarization I must in truth state that this word does not exactly describe the state of affairs in the Far East. Too often in history has demilitarization followed the conclusion of military operations. But there has been no war between the Soviet Union and Japan and I hope there will not be. Although in the present instance it is a question of voluntary mutual demilitarization I nevertheless consider that such a statement of the question ought to be avoided. It would be perfectly normal however if as the tension aroused in the Far East by the events of the past 4 years relaxes the interested sides would make a study and enter into a calm discussion of the question of the mutual withdrawal for a definite distance of a certain section of the armed forces of both sides including aviation taking into consideration of course the geographical position of each side.

Considering that the question thus formulated lends itself to discussion I feel that this matter could be the more rapidly and successfully settled as mutual confidence strengthens and apprehensions of all aggression are eliminated. It would be for instance most important to dispel that unfavorable impression in the Soviet Union made by the negative position of the Japanese Government with regard to the Soviet Government's performances for the conclusion of a non-aggression pact."

[62] Maxim Litvinov, Soviet Commissar for Foreign Affairs.

The Foreign Office has attempted to arouse the interest of foreign correspondents in the foregoing, and to convey the impression that it represents an important step towards *rapprochement* with Japan. According to my information it came as a complete surprise to the Japanese Embassy. Competent observers interpret it as a tactical effort to placate the Japanese because of anxiety over possible German aggression and secondarily to impress the United States and Great Britain with the possibility of a new orientation in the Far Eastern complex.

WILEY

861.77 Chinese Eastern/1389 : Telegram

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

NANKING, March 17, 1935—noon.
[Received March 17—3 : 55 a. m.]

50. On March 16, 8 p. m., the Ministry of Foreign Affairs delivered to this office a memorandum dated March 16 enclosing a copy of a declaration in regard to the reported sale of the Chinese Eastern Railway. The translation of the declaration supplied by the Foreign Office concludes with the following paragraph:

"In conclusion, the Chinese Government emphatically declares that the transfer, by sale or otherwise, of the Chinese Eastern Railway, which entirely lies within China's domain and the status of which is derived from China's special grant, is considered by the Chinese Government and people as an unlawful transaction without any binding force and further, as an international entity in respect of which the Chinese Government fully reserves its rights."

Original will be mailed to the Legation today. The complete text has been telegraphed by the Foreign Office to the Chinese Legation at Washington and will be published in the newspapers March 19. Repeated to the Legation.

PECK

893.102S/1345 : Telegram

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

PEIPING, March 18, 1935—4 p. m.
[Received March 18—9 : 30 a. m.]

121. Reference Department's 67, March 6, 6 p. m.[63] Following from American Consul General at Shanghai:

"March 16, noon. Referring to my telegram March 9, 10 a. m. Beaumont unable secure Japanese adoption of the draft contained in

[63] See footnote 59, p. 75.

Legation's instruction December 22, 1934. Will the Legation approve my discussing the matter with Consul General Ishii as a last effort to secure adoption of draft proposed as part of the defense scheme. If approved and discussion unsuccessful I consider the other alternative is that Beaumont advise others interested that his interpretation of the particular paragraph is in accordance with the Department's draft."

In view of the above the Legation does not desire to instruct Cunningham before receiving the Department's instructions in this connection.

JOHNSON

793.94/6842 : Telegram

The Secretary of State to the Minister in China (Johnson) [64]

WASHINGTON, March 19, 1935—7 p. m.

82. Department's 30, January 31, noon. In regard to current developments in the rumored Sino-Japanese negotiations for a *rapprochement*, the Department appreciates and has found informative and helpful the reports, telegraphic and mail, which the Legation, the Embassy at Tokyo and consulates in China, particularly Nanking, have sent. These reports have for the most part described particular happenings or presented particular items of information.

In endeavoring to formulate an estimate of the actual situation, the Department needs the assistance of the field in that effort, especially when, as now, developments of far-reaching importance seem to be in process. To this end, the Department requests careful study and evaluation of available evidence, analysis and concise portrayal of the situation as a whole, and carefully thought-out estimates of present and predictable trends, with reporting by telegraph and by mail. The Legation should assume primary responsibility for carrying out this instruction insofar as it relates to developments in China and should carefully coordinate and supervise the reporting work of consular officers in China on this important subject.

Repeat to Embassy at Tokyo as Department's No. 43.

HULL

793.94/6958

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

No. 3473 PEIPING, March 21, 1935.
[Received April 20.]

SIR: I have the honor to enclose herewith a series of twenty-two memoranda [65] covering conversations with responsible merchants and

[64] See last paragraph for instructions to repeat to Tokyo as Department's No. 43.
[65] None printed.

officials of the Chinese Government which I had during the period February 13th to March 15th in Shanghai, Nanking and Peiping upon my return from leave in the United States. These conversations related to the financial crisis which has developed in Shanghai and to a change which has taken place in Sino-Japanese relations. Both these questions are related in the enclosed summary. (The memorandum of a conversation which I had with Vice Minister of Foreign Affairs T'ang Yu-jen on February 23rd [66] was transmitted with the Legation's despatch No. 3420 of March 7th.[67])

The Department will note from what was said to me that there has really come about a change in Sino-Japanese relations, and that it would appear that the Japanese military are the most active agents in bringing this change about, still retaining the initiative in and control of Japan's policy toward China. The agents, self appointed or chosen to make this policy effective, are military officers with whom the regular representatives of foreign Governments cannot maintain proper contacts, not only because of the irregularity of their status, but also because the Japanese military officer maintains a studied aloofness toward all foreigners and toward all Chinese except those with whom he chooses to make contacts. The Chinese with whom the Japanese military maintain relations are generally persons of known or reputed pro-Japanese leanings, unknown to the regular channels of foreign intercourse with China. Even the names of these people are for the most part undivulged.

In having these conversations I took particular care not to evince any excessive interest in the matters discussed. I particularly refrained from direct questions, and statements were made to me entirely upon the initiative of the Chinese. I found evidence of an unwillingness on the part of responsible Chinese to be specific in this matter; there was an evident fear of revealing sources, and apparently a general desire to create in my mind the impression that no actual or responsible negotiations had taken place.

From these conversations I think it may be safely assumed:

1. That the Japanese military, and particularly the Kwantung Army, have concluded to seek economic advantages in China by peaceful negotiation.
2. That we may expect them to work out some trade arrangement whereby, by grant of credit and reciprocal tariff advantages, Japan will take certain Chinese products in return for Japanese-manufactured goods.
3. That Japan will work out with the Chinese some kind of an arrangement which will include financial assistance, whereby Japanese cotton experts will be employed in the cotton-growing areas of

[66] Not printed, but see telegram No. 42, February 27, 3 p. m., p. 62.
[67] Not printed.

North China for the purpose of improving the yield and extending the acreage of China's cotton.

4. That Japan will seek authority to construct a railway which will give her access to and control over the coal that is available in the province of Shansi.

5. That Japan will obstruct any effort of China to develop any iron industry in the Yangtze Valley except under Japanese control and with Japanese assistance.

6. That China will use every effort to do away with the boycott of Japanese goods which for such a long time has prevailed among the Chinese.

To accomplish these purposes Japan will hold over Chiang Kai-shek and his Government the threat of obtaining these ends by dealing with local authorities and thus destroying the very life blood of the Chinese Government.

Perhaps it is pertinent in this connection to add that recently the British Government, in considering a proposal made to it by the Chinese for a loan, served notice on the Chinese Government that the British Government would be prepared to consider financial aid to China at this time only in case such financial assistance were accomplished by international cooperation, and then only with the participation of Japan and contingent upon China settling differences with Japan.

As regards Soviet Russia, it is my belief that the Soviet Government is only too happy to have Japan occupied in Asia, for this will serve to postpone any threat which Japan may offer to Russian interests.

Respectfully yours, NELSON TRUSLER JOHNSON

[Enclosure]

Memorandum by the Minister in China (Johnson)

PEIPING, March 21, 1935.

SINO-JAPANESE RELATIONS: SUMMARY BASED ON CONVERSATIONS, MEMORANDA OF WHICH ARE ATTACHED [68]

Upon my return to China in the middle of February of this year from a vacation in the United States I found that during the four months of my absence a distinct change had occurred in Sino-Japanese relations. There was a great deal of excited discussion, not only in Japan, but also in Shanghai and Nanking, and in the Chinese press generally, of a more friendly atmosphere developing in the relations between the two countries. The discussion centered around Sino-Japanese "collaboration" in economic fields.

[68] Memoranda not printed.

It appeared to be the opinion of responsible Chinese with whom I talked in Shanghai and in Nanking that the initiative in this new turn of events had come from the Japanese side. Reference was made to statements which First Secretary of Legation Suma stationed in Nanking had made in the course of visits to General Chiang Kai-shek, Wang Ching-wei, Acting Minister of Foreign Affairs, Chen Kung-po, Minister of Industries, and H. H. Kung, Minister of Finance. Mr. Suma made these calls upon his return to China after a vacation in Japan, and presumably he had the latest information of the Japanese attitude learned from responsible authorities. At about the same time the Japanese Military Attaché, Suzuki, called upon responsible Chinese officials and is reported to have made statements regarding Japanese policies. During the time that I was in Shanghai and Nanking, Major General Doihara, formerly employed in China as an adviser to the Chinese Government and recently attached to the Kwantung Army, who in recent years has achieved a position of mysterious stature with a reputation for intrigue with Chinese worthy of an Oppenheim story, was making a tour of China visiting high Chinese officials North and South, after having attended in Dairen a much-publicized conference with fellow officers of the Kwantung Army.

Chinese reaction to these visitations was of two kinds. In the first place, there was expressed a general belief, on the part of those not immediately connected with the conversations, that these spokesmen of Japanese policy had delivered what amounted to an ultimatum, to the effect that the Chinese must show an immediate appreciation of Japan's pacific and friendly attitude or take the consequences. It was said that the Chinese were given six months in which to meet what were purported to be the Japanese terms.

On the other hand, among those Chinese who seemed to be closest to the conversations in question, I could get no evidence of any demands having been presented, although all expressed a certain amount of conviction to the effect that these gentlemen had made it evident that Japan is intent upon a policy which, if successful, would in the end result in economic if not political control in China.

Speculation varied as to the reason why the Japanese military should have changed their policy in regard to China at this time. It was generally believed that the military, having accomplished all that they had intended to accomplish in Manchuria and North China, were now prepared to look at China proper, not so much from the point of view of military conquest as from the point of view of economic conquest. It was said that there was evident in Japan a certain loss of prestige on the part of the military. (That may be indicated by the fact that the Japanese Government appears to have transferred to the Kwantung

Army in Manchuria most of those figures, such as Itagaki and Minami, who were originally involved in the Japanese adventure, thus separating them from direct control of military policy at home.)

And it was argued that, as a corollary to this loss of prestige in Japan, there was a revival of influence on the part of Japanese business and civilian leaders—particularly of Osaka merchants, all of whom have been in favor of more peaceful methods in Japan's China policy—with a view to obtaining a return of China's good will and a better market for Japanese goods. There seemed to be a belief that among the merchant and civilian leaders in Japan there was a growing apprehension not only regarding Japan's internal economic situation, but also regarding the future of Japan's much-needed foreign market for the products of her industries. It was said that the increasing handicaps placed by the United States and the British Empire and other countries upon Japanese goods are forcing Japanese industries back upon China as an outlet for their products. It was argued that the Japanese military, perceiving this trend, and anxious to retain their position of leadership in Japanese domestic politics and the direction of Japan's policy toward China, took the initiative, thus robbing the civilian and merchant element in Japan of any prestige which such a move might give.

Another reason given for this change in the attitude of the Japanese military was that in March of this present year (1935) Japan's resignation from membership in the League would become effective, while in December her denunciation of the Washington Treaties [69] would also become effective. The Japanese military leaders were therefore anxious to clean up questions pending with China before the end of the year, and if possible face the questions that would present themselves in 1936 with a peaceful China behind them.

In all accounts that came to me of the conversations which Suma, Suzuki and Doihara had with Chinese, I gathered that they intended to convey to the Chinese that they were speaking for the Japanese Government; and I wish to say in this connection that in all conversations which I have had with Mr. Suma I have been impressed with the fact that he intends to convey the idea that he speaks for Japan. I have never heard him mention to me the activities or the statements of the Minister, who in all of these matters seems to play a very minor rôle if any.

From the Chinese side the reaction to these methods appears to be one of frightened acquiescence. In the first place, they feel only too poignantly their inability to meet Japanese force with force, and with

[69] Meaning the treaty concerning limitation of naval armaments, signed February 6, 1922, *Foreign Relations*, 1922, vol. I, p. 247. For Japan's denunciation, see note No. 250, December 29, 1934, *Foreign Relations*, Japan, 1931–1941, vol. I, p. 274.

hatred in their hearts they seek whatever means offers to placate Japanese force. On the other hand, in recent months they have been terribly reminded of the economic weakness of the Government, by the reaction of silver in the possession of Chinese to the silver-purchasing policy of the United States.

When the white metal was cheap it came in large quantities to Shanghai for investment; the security of the International Settlement tended to concentrate the silver there. Such quantities were received from abroad and the Chinese interior that it was begging for opportunities for investment. Under these conditions the Chinese Government found it easy to finance Government enterprises.

When the price of silver went up it became immediately advantageous for Shanghai merchants to use their accumulation of silver to meet obligations abroad. There was also the temptation to realize at once the profits which the rising price of silver offered to those who had bought silver when it was around twenty-four cents an ounce. The result was a flight of silver from Shanghai, and the disappearance of China's only market for her Government securities. In other words, the Government had put too many eggs in its Shanghai basket, and it now found itself in desperate straits.

It was natural enough that in this situation the Japanese advances along more peaceful lines should be welcomed. Although it would appear that no Japanese loan has been offered, at the same time it is apparent that Japanese credit contingent upon China's efforts to kill anti-Japanese feeling in China would be immediately available, provided that, in return for Japan's taking more Chinese products, the Chinese would make more of their purchases from Japan.

The Chinese present two attitudes of mind: the bankers and certain members of the Government are very much opposed to a loan; but a desperate Minister of Finance, abetted by the former Minister T. V. Soong, has been making frantic efforts—the one in America and the other in England—to obtain financial assistance to tide the Government over the present crisis.

Chinese students of the situation were and are convinced that something must be done toward increasing the sale abroad of Chinese goods. They appreciate the fact that industrialized Japan offers the closest and most likely market for China's raw materials. They are therefore prepared to meet Japanese approaches half way. But they are conscious of the fact that certain industries in China are rapidly growing in their ability to meet Chinese demand for many types of foreign products, especially those for which Japan will seek a market from her own industries. Herein will be found factors that will offer serious difficulties to both Japan and China in any efforts that they may undertake at economic collaboration. Chinese cotton is

available in increasing quantities and in better quality for Japanese use, but it is not yet available in quantity much beyond present consumption in China, and in quality it is still below the requirements for goods of quality superior to that for which China chiefly offers a ready market. Any increase in cotton acreage must be at a sacrifice to the production of food in a country where the margin between the number of mouths to be fed and the quantity of food produced is rapidly decreasing. Japan will have to devise means of supplying food to the cotton farmers; otherwise, in the cotton growing districts we may find the need of food acting as a limitation upon the acreage available for cotton.

It is of course possible that the better organized Japanese industry, plus lower tariffs which the Japanese may force the Chinese to fix for Japanese products, may result in throttling Chinese industry, whether in cotton, silk, cosmetics, or heavy industries. It is difficult, however, to see how Japan can expect standards of living in China to increase to the point where China can offer the more expensive market which Japanese industry is beginning to require, if such a policy of throttling Chinese industry is pursued.

"Manchukuo" presents an economic problem to Japan which is going to be difficult to solve. In the first place, the large Chinese population in Manchuria will try by every means within its power to remit its earnings to the old homes in China, for Manchuria's population is essentially connected—economically and ethnologically—with China. During the past year Japan has spent in Manchuria over 200,000,000 Yen for construction work, and during the same period Chinese labor in Manchuria has, it is reported, remitted to China something like $150,000,000. Manchuria no longer takes the products of China's cotton mills, as was the case before 1931. It is reported that the Manchurian market for piece goods is now being supplied by Japanese-controlled mills in Shanghai, which, by some arrangement with the Japanese Government, send their products to Japan for exportation to Manchuria as Japanese products. These mills in Shanghai are understood to be controlled by Japanese textile industries in Japan, but the material and labor used in the production of the goods is Chinese, so that it is doubtful whether the Japanese textile industry benefits in this matter beyond the middleman's profit, and the transaction certainly does not appear to offset remittances which come from Manchuria to China.

Other raw products which China might possibly furnish Japan are iron, coal and oil. China of course is anxious to develop these resources for her own use, but it remains to be seen whether she will be able to command the wherewithal at home or the necessary financing and assistance from abroad to enable her to do this, for I believe that the

792998—53——13

Japanese will effectively obstruct any effort of China to accomplish this purpose with the help of any one but herself, and of course this would mean that Japan would automatically obtain control over the resource in question. It is known that Japan is at the present time seeking to obtain China's permission to build a railway either from Tangku or Tsinan for the purpose of tapping the large coal reserves of Shansi. This would give Japan an excellent supply of what is understood to be good coking coal. As regards oil, the only known supplies of this product are in Sinkiang, an area much more likely to come under Soviet control than Japanese.

N[ELSON] T[RUSLER] J[OHNSON]

793.943 Manchuria/9

The Consul General at Harbin (Adams) to the Minister in China (Johnson)[70]

No. 60 HARBIN, March 21, 1935.

SIR: I have the honor to supplement my despatch to the Legation, No. 54, March 9, 1935,[71] entitled "Extraterritoriality in 'Manchukuo'," by giving below the comment and recommendations mentioned in that despatch.

I have had occasion to express the opinion that in China proper the real danger to American interests involved in the abolition of extraterritoriality would not lie mainly in corruption of the courts in civil cases or in miscarriage of justice in the very few criminal cases that would occur, but would very definitely lie in the utter helplessness of the Chinese courts to afford protection against confiscatory levies by irresponsible military leaders. That danger would not, under present circumstances, exist in Manchuria. While the Japanese army is supreme in Manchuria, it has some sense of responsibility and, so far as taxation is concerned, works in an orderly manner through civil agencies. Even so far as the questions of the honesty and efficiency of the "Manchukuo" courts are concerned it appears obvious that the authority which would abolish extraterritoriality has too large a stake in Manchuria to risk exposing that stake to glaring corruption and inefficiency in the courts. When the Japanese abolish extraterritoriality in Manchuria, the "Manchukuo" courts will be so Japanized as to personnel and system that there would not (having in mind only the welfare of the interests involved) be much more risk in exposing the small American interests in Manchuria to their jurisdiction than is

[70] Copy transmitted to the Department by the Consul General at Harbin in his despatch No. 113, March 21; received April 20.

[71] Not printed.

at present incurred by American interests in Dairen, Formosa and Japan.

There is also to be considered the question of the effect that the abolition of American extraterritoriality in "Manchukuo" would have in China. By some years of carefully planned agitation directed against "foreign imperialism" and towards the protection of China's "sovereign rights," the Kuomintang had in 1931 made such a vital patriotic issue of the question of extraterritoriality that the Powers were on the point of yielding to pressure and relinquishing the extraterritorial rights of their nationals in China.[72] Chinese officials and citizens alike had worked themselves into such a frenzy of excitement over the matter that they were unable to view it sanely. They demanded immediate and almost unconditional surrender of extraterritoriality irrespective of the confusion and corruption in their many and uncoordinated military and civil administrations. The sobering shock occasioned by the Japanese seizure of Manchuria brought to an end this frenzy and sharply awoke the Chinese to a realization of the wholesomely restraining influence upon Japan of the occidental rights and interests in China. The pressure for the abolition of extraterritoriality in China was thus eased and the urgency of the issue faded. There is not at present any question of China's forcing that issue. She is in no position now to make any demands of Japan and if my estimate of the Chinese official attitude is correct China will not, regardless of developments in Manchuria, go to any considerable length in insisting upon the relinquishment of extraterritoriality by American and European Powers in China so long as she knows that there is no chance of influencing Japan upon the question of her extraterritoriality in China. If Japan were, in bargaining for some greater advantage, to agree to the relinquishment of her extraterritoriality in China, then the question of the extraterritoriality of the American and European Powers would very probably again become a vital issue. Or, one or more of these Powers might, for purposes of its own, voluntarily, in the absence of pressure or at the simple request of China, reopen the matter of abolishing extraterritoriality. In other words, I believe that the question of extraterritoriality in China will develop along its own lines without reference to the question of extraterritoriality in "Manchukuo."

With the foregoing in mind, my thought is that the American Government would, in the event of an attempt by "Manchukuo" to abolish all extraterritoriality in Manchuria, be wise to limit its action to protests as it has thus far done in the more important question, so far as practical immediate interests are concerned, of the proposed

[72] For correspondence on this subject, see *Foreign Relations*, 1931, vol. III, pp. 716 ff.

oil monopoly. I believe that it would be unwise to withdraw American consular representation in Manchuria as a means of making American protests more emphatic. As already indicated, the proposed action with regard to extraterritoriality is not aimed at American or other occidental interests, and the plans involved are too definite and important to be materially affected by protests and the closing of two consulates general, if American action were limited to that.

Useful sources of information with respect to developments in Manchuria would be cut off by the closing of the offices in Mukden and Harbin, while the continued presence of American consular officers in Manchuria would, I believe, tend to exercise a restraining influence upon action affecting American interests.

It cannot now be foreseen in what form the question of the abolition by "Manchukuo" of American extraterritoriality in Manchuria would arise, but I beg to point out that law suits involving American defendants in Manchuria have in the past been infrequent. While the Japanese attitude in this respect may very possibly have changed in recent years. I may say that when I was stationed in Tsingtao which was then governed by a Japanese military officer, I found the Japanese authorities quite willing to make every effort privately to adjust disputes involving American citizens. The main aim of the Japanese in bringing up the question of the abolition of extraterritoriality is revenue through taxation and it seems probable that the first specific instance of an attempt to apply "Manchukuo" authority to American interests might easily consist of an effort to tax American firms or individuals. American firms and individuals in the Harbin district are already making "voluntary contributions" towards municipal expenses.

Respectfully yours, WALTER A. ADAMS

793.94/6922 : Telegram

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

TOKYO, March 22, 1935—6 p. m.
[Received 11 : 55 p. m.]

60. Department's 43, March 19, 7 p. m.[73]

1. In estimating the present Sino-Japanese situation the primary consideration to bear in mind is that the Japanese Government does not think or act as a unit. The cleavage between the liberal school of thought on the one hand and the chauvinistic or military school of thought on the other hand is marked and at present is not susceptible of adjustment. The Chauvinists are definitely opposed to international assistance to China. Hirota may be classed with the Liberals,

[73] See footnote 64, p. 79.

Shigemitsu and Amau with the Chauvinists, which explains the discrepancies in their respective pronouncements. I question whether Hirota has even been consulted with regard to the recent activities of Doihara and Suzuki.

2. Kadono, Managing Director of Okura and Company and one of the most influential businessmen in Japan told the British Ambassador [74] yesterday quite definitely that Hirota had not approved and is not in sympathy with the policy toward China enunciated by Amau last April.[75] Hirota has told Clive that he not only welcomed the British initiative in endeavoring to find a way to help China out of her financial difficulties but he also welcomed the cooperation of the other interested powers. Kadono said to Clive that Hirota is absolutely honest in expressing these opinions. I believe this to be true and that he is faced with genuine difficulties in reconciling his own policy with that of the die-hards.

3. While Hirota told Clive that he would talk with him again after discussing with Takahashi [76] the question of a loan to China, Clive believes that Hirota sent Kadono in order to avoid an official expression of opinion. Kadono said that the businessmen of Japan, and he believed the banks also, were unalterably opposed to a loan to China owing to the absence of reliable security. He said that such a loan could not be floated in Japan under present conditions.

4. Factual evidence bearing on the situation is too meager at present to justify either analysis or prediction from this angle. We have no indication other than press comment of the trend of Cadogan's [77] conversations in Nanking and no indication of any Japanese plans other than Hirota's expressed desire to improve the general atmosphere of Sino-Japanese relations slowly and progressively.[78]

Repeated to Peiping.

GREW

893.102S/1345 : Telegram

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

WASHINGTON, March 22, 1935—8 p. m.

88. Your 121, March 18, 4 p. m.

1. What are the reasons for objection on the part of the Japanese to adoption of the revised wording set forth in Department's 385, December 14, 8 p. m.? [79]

---

[74] Sir Robert H. Clive.

[75] See statement of April 17, 1934, *Foreign Relations*, Japan, 1931–1941, vol. I, p. 224.

[76] Korekiyo Takahashi, Japanese Minister of Finance.

[77] Sir Alexander M. F. Cadogan, British Minister in China.

[78] The Department in its telegram No. 46, March 23, 2 p. m., described this despatch as "very helpful" and "just the type of information and comment desired."

[79] *Foreign Relations*, 1934, vol. III, p. 340.

2. In case Japanese object to first sentence only of the suggested revised wording, would that objection be met by deleting first sentence and by making revision consist of second sentence only, appropriately changed to read as follows: "Where, on the responsibility of the authorities of the nation concerned, garrison forces or other military or naval forces are employed in extending protection to life and property in areas outside the perimeter, the garrison commander of the nationality of the forces so employed will promptly notify the Defense Committee, for its information, of the measures so taken." If so, Department authorizes proceeding on that basis.

3. When telegraphing report on paragraphs 1 and 2 above, please include your views and recommendations.

HULL

793.94/6924 : Telegram

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

PEIPING, March 23, 1935—noon.
[Received March 23—10 a. m.]

126. Although the Legation is unable to obtain any other authentic information with regard to the substance of the alleged conversations between certain Chinese and Japanese looking toward improved relations, the Legation is of the opinion that these conversations are primarily for the purpose of an improvement of a general character in Sino-Japanese relations and that such improvement will be accompanied gradually by concrete evidence that such improvement is being effected. Among those indications may be anticipated the raising of the two legations to embassies, changes in the Chinese tariff favorable to the Japanese, increased Sino-Japanese trade, industrial understandings. The Legation doubts that these conversations will result in any detailed agreement of wide scope but anticipates that rather they will prepare the way for a series of understandings or provisional developments, some of which will be arrived at by government officials, some by the military, and some by industrialists and other businessmen.

The foregoing is presumed to be the so-called Hirota policy, the immediate purpose of which is supposedly the development of China as a market for Japanese produce and as a source of raw materials for Japanese factories. It is too soon to hazard what the political implications of this policy may be.

It is believed, however, that at least an important part of the military is not satisfied with Hirota's policy. They are skeptical of its success, due to their belief that "friendliness" shown by the Chinese will not be "sincere." They are at heart afraid of a strong Chinese [nation?]

developing to a degree inimical to Japanese expansion. And they are interested in obtaining in China certain noneconomic objectives, such as strategic advantages in preparation for a future war with Russia and other advantages which will make it impossible for China's military to become a threat to Japan.

How long the Japanese military may permit the Hirota policy to be tried out is not known. Reports from Manchuria indicate that the Kwantung Army is at present more intent on consolidating its position in Manchuria and in improving "Manchukuo" than in adventuring outside its borders in other than political adventure. Report of Major General Doihara to his colleagues in the Kwantung Army on his tour of China will have an important bearing on the attitude of the Kwantung Army; but Doihara's ideas are not known to the Legation. The Legation does not expect any important military move on the part of the Japanese Army in the near future. This does not preclude, however, the possibility of factional activities with that section of the Japanese military which believes in the desirability of dealing with certain of lower-acting Chinese leaders and in weakening General Chiang Kai-shek. This lack of unity of policy on the part of the Japanese makes it impossible to be more definite in a forecast of future events than that the Japanese military instruments prevent China from becoming either a barrier or a menace to Japanese expansion.

As to the Chinese, there is no reason to believe that they will do other than reluctantly comply with Japanese desires, in view of the improbability of help being obtained from other quarters and in view of the serious internal problems which confront General Chiang Kai-shek and the Nanking Government.

JOHNSON

793.94/6955

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

No. 3455 PEIPING, March 25, 1935.
[Received April 20.]

SIR: I have the honor to refer to the Department's telegram No. 82 of March 19, 7 p. m., 1935, with regard to reporting on current developments in the rumored Sino-Japanese negotiations for a *rapprochement*, and to assure the Department that the Legation will do everything which it can to assist the Department in studying and evaluating available evidence on this subject.

I should like, however, to suggest that, the situation which has developed here since 1931 being primarily in the hands of the Japanese military and more specifically in the hands of responsible leaders of the Kwantung Army, the Legation lacks means of maintaining proper

contacts for purposes of accurate and reliable information. Japanese military officers generally maintain an attitude of complete aloofness from all foreign contacts. In such associations as we have been able to make and maintain with Japanese civilians, official and unofficial, we have been led to the conviction that either they are not privy to the plans and intentions of their military colleagues or are afraid, in view of the attitude of the military, to say anything of significance.

Furthermore, the Chinese with whom men like General Suzuki, Major General Doihara, and the Assistant Military Attaché at Peiping, Major Takahashi, make what we believe to be responsible approaches are equally afraid to talk, and the Legation and other officers have been attempting to exercise particular care not to give the appearance of overt interest or anxiety in conversations with either Japanese or Chinese. It is believed that conversations with regard to the most important phases of Sino-Japanese "cooperation" are confined on the Chinese side to a very limited number of persons whose identity is not known with exactitude, although it is presumed that General Chiang Kai-shek is one of them. To obtain information from the principals concerned, who are the only persons who know what is actually going on, is impossible. It may also be mentioned that some of the Chinese with whom the Japanese deal have so little apparent connection with the usual organs of diplomatic intercourse and are so insulated against the usual contacts that for members of the Legation to approach them would arouse immediate suspicion.

We are definitely aware of a difference of opinion among Japanese as to method of approach in dealing with China, points of view being as wide apart as the known Kwantung Army policy of dealing with Chinese officials singly and locally for the purpose of profiting by a divided China, and the Foreign Office policy of dealing with a single Chinese Government held responsible for the whole of China. Between these two points of view it is impossible for the Legation at any given moment to foretell with any assurance of accuracy the direction which Japanese policy will take. For the moment it would appear that an attempt is being made by the Kwantung Army (together with those military in Japan with similar views), which appears to be guiding Japan's policy in its relation to China, to follow the Foreign Office policy, but at any moment this may change.

The Chinese, unable to meet Japanese force with force and faced with a financial crisis, are apparently at their wits' end to know what to do. They can be expected to comply as far as possible with Japanese desires, as they see no help either at home or abroad in their predicament. It must not be forgotten that the British within recent

days have informed the Chinese that they can expect no assistance from Great Britain unless Sino-Japanese relations improve.

Respectfully yours, NELSON TRUSLER JOHNSON

500.C001/1079 : Telegram

The Consul at Geneva (Gilbert) to the Secretary of State

GENEVA, March 26, 1935—5 p. m.
[Received March 26—3 p. m.]

103. The following statement will be issued by the Secretary General [80] to the press tomorrow:

"It is most regrettable that the League of Nations should have to part with one of its original members that has cooperated with it for nearly 15 years.

Now that the separation is an accomplished fact the legal bond of connection between Japan and the League ceased to exist. Japan has no longer any right or obligation as regards the League and it is therefore unhappily impossible for her to retain the position she has hitherto occupied in connection with the League.

We are, however, given to understand that the Japanese Government has the intention of pursuing a policy of international cooperation in the spirit of the 'Imperial Rescript' promulgated 2 years ago. Such an intention is a cause for great satisfaction. We cannot say what form it will take but for my part I am decided to do nothing that could prejudice the relations between Japan and the League. We cannot foretell the future and I do not think that we should abandon the hope of the League's universality."

The question naturally arises as to what extent the Secretary General in issuing such a statement is doing so on his own initiative or to what extent he is acting responsive to the policy of certain League states. In any event I am of the opinion that the reference to Japan's "obligation as regards the League" will give rise to question and comment in various quarters.

GILBERT

500.C001/1080 : Telegram

The Consul at Geneva (Gilbert) to the Secretary of State

GENEVA, March 27, 1935—6 p. m.
[Received March 27—3 : 25 p. m.]

105. Consulate's 103, March 26, 5 p. m.

1. The following is summary of a statement made by Yokoyama [81] to the press:

[80] Joseph Avenol.
[81] Japanese Consul General at Geneva.

(*a*) From a legal standpoint all relationship to the League will be severed. Japan will have no right nor obligation vis-à-vis the League. The League cannot, however, ignore the existence of Japan as a world power and especially her preponderant position in the Far East. Japan cannot ignore the existence of the League as the most important international organization and especially its utility as a central organ of humanitarian technical endeavors.

(*b*) In regard to collaboration in technical activities Japanese experts serving in a private capacity on League organs will presumably continue until the expiration of their mandate and as regards official delegates of the governments they will not take part in commissions unless invited afresh by the competent League authority.

(*c*) As regards mandates Japan as a signatory of the international statutes will continue to present its annual reports to the Mandates Commission. At the last meeting of the commission the Japanese representative declared that his Government would give precise reply to certain questions and the Council of the League took note of the report in which this declaration was recorded.

(*d*) As to the Permanent Court, the position of Japan will undergo no change.

2. In a statement to the press Hoo [82] makes the following observations.

This is the first time the Secretary General makes a declaration and it is questionable whether he should make this one without authorization from the Council, the Assembly or the Sino-Japanese Advisory Committee; the declaration seems to conflict with paragraph 3 of article 1 of the Covenant; the Secretary General's apparent interpretation of the Covenant would weaken the League by making it possible for any member to cancel its obligations by resigning.

3. The Secretary General's statement and incidentally that of the Japanese have evoked widespread questioning. The substance of Avenol's position is of course in line with the *de facto* attitude of the League which has prevailed for some time and which I have discussed in a number of previous communications. Nevertheless despite any attempt to restrict the interpretation of the text the effect especially that portion relating to obligations is seen as significant not only as respecting Japan but in relation to the entire principle and practice of obligations of states under the Covenant. The chief speculation turns, however, on the motives for making any such statement. It is a marked departure from precedent for the Secretary General to issue such a pronouncement of political policy especially one interpretive of the Covenant and there is further the thought that no obvious circumstances render such a pronouncement other than gratuitous. From knowledge of Avenol's character it is difficult to view his action other than as being definitely motivated either by what

[82] Victor Chi-tsai Hoo, Chinese Minister in Switzerland.

might be termed League policy or in respect to the policy of some League powers. Except in the field of the most general speculation there is nothing to adduce on these points. In some quarters taking into consideration the difference in time between Tokyo and Geneva it is seen that the statement formed a platform for that of Hirota. In any case it is difficult to believe that it was made without prior knowledge of Paris and probably of London.

Following what China feels to have been a series of rebuffs by the League particularly as reported during the last Assembly, Hoo fears a most adverse effect on Chinese League relations.

GILBERT

741.62/64 : Telegram

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

LONDON, March 28, 1935—7 p. m.
[Received March 28—2:45 p. m.]

148. At Sir Warren Fisher's [83] request Atherton [84] called this morning. Fisher said in the recent Berlin talks England had offered Germany a place in the European collective system but that Germany appeared to have chosen the other alternative and Europe now faced the prospect of dividing into rival armed camps. Fisher said England was living in the past in the mistaken belief that she was detached from the Continent but that she could not be allowed to continue in this frame of mind. In the given circumstances she had to increase armaments. The Prussian spirit which pervaded Germany today might force Europe into a war, he thought, within 10 years. The French believed perhaps rightly within a far shorter period. The German Government with a docile but virile people, would fight for expansion. The Hitler regime had taught modern Germany that she had not been defeated by superior numbers in the last war but by lack of material, and to rectify this all the energies of the Hitler regime had been dedicated. Germany was perhaps 70 percent prepared today, according to his information, which he added, the average Englishman did not begin to realize. But they would have to realize the danger and steps would be taken to make them realize it. Fisher then stated Germany had more than once in recent months made overtures to Japan. The British Government had been informed of these overtures by the Japanese Government, which had turned them down. Fisher went on to say that this led him to the Far Eastern question

[83] Permanent Secretary of British Treasury, considered for mission to China.
[84] Ray Atherton, Counselor of Embassy in Great Britain.

which was the real purpose of the visit. He referred to a previous conversation of March 7th outlined in Atherton's letter of March 8 [85] to Admiral Standley,[86] a copy of which was forwarded to Moffat,[87] and China's request of Great Britain last year for a stabilization loan, to which they had merely replied that they would consider the matter. This permitted the representations made by the various British missions (see Department's 45, March 5, 8 p. m.[88][)] which resulted in the fact that today the Governments of Japan, United States, Great Britain and possibly France, were all to consult with regard to economic assistance to China. Fisher discussed this question with Matsudaira,[89] who had informed him that the Japanese Government were opposed to the creation of any international economic commission, but favored negotiations conducted through diplomatic channels. Fisher told Matsudaira that this was quite in line with the policy the British Government had framed and stated they contemplated sending a central bank economic technician to be attached to the Legation in Peiping. It was the British hope that the American, Japanese and possibly French Governments would do likewise. That these technicians attached to their respective missions could, in consultation with the Central Bank of China and one another, investigate and diagnose the Chinese economic and monetary ailments, and advise their respective Ministers. But all political questions that arose in the course of discussions would fall directly into the hands of the Ministers themselves and would lie outside the province of the technical advisers. Fisher added, in the strictest confidence, that many names had been suggested for the British representative, including . . . Fisher then expressed regret that Simon [90] had asked the Chinese to state their case (see second paragraph, my 94, March 6th [91]) and said that the present proposed action was intended to forestall the Chinese offering a plan; they had already discussed at various times linking their currency with the dollar, the pound, or the yen, and in general attempting to play off one power against another. The evident undercurrent of Fisher's thought, which he admitted to Atherton, was the fact that under present circumstances the only way to reduce the tension in the Far East was by direct negotiations between China and Japan; that the contribution of Western Powers was a suitable forum to effect a successful outcome of these negotiations. In this connection, the views

[85] Not found in Department files.
[86] Admiral William H. Standley, Chief of Naval Operations.
[87] J. Pierrepont Moffat, Chief of the Division of Western European Affairs.
[88] Not printed; this telegram reported a visit from the Japanese Ambassador on March 4 (893.515/430). For oral statement handed to the Ambassador on that day, see p. 556.
[89] Tsuneo Matsudaira, Japanese Ambassador in the United Kingdom.
[90] Sir John Simon, British Secretary of State for Foreign Affairs.
[91] *Post*, p. 557.

he expressed reminded Atherton of those expressed by Wellesley[92] (see enclosure despatch 1260 of March 5th[93]). He pointed out that Great Britain and the United States were both interested in maintaining their trade with China, which should increase from its present low ebb. He added he had already announced this to Matsudaira as part of England's policy, and he had also frankly deplored to Matsudaira Japan's present action in regard to Manchukuo oil.[94] Fisher stated that their instruction to Minister Cadogan in Peiping to inform the Chinese Government of the British policy in attaching a technical expert to the Legation would not go forward until Saturday, the 30th. He added that if the American Government desired to raise any question in this connection he would be very glad to discuss the subject again. It was the British Government's intention that the American Government should be thus apprised in advance of its policy and intentions, and he added expressly that America's domestic silver policy was in no way concerned. Fisher laid emphasis on the fact that economic recovery in any part of the world would ease tension decidedly, and that the present difficult world situation necessitated careful and conciliatory handling. In this connection he gave Atherton to understand this consideration was influencing England's Soviet policy. Simon's statement in the House of Commons today, cabled textually by American press, added little information and confirmed many observers in their opinion that decisions of policy must await Eden's[95] return to London.

BINGHAM

793.94/6957

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

No. 3478 PEIPING, March 29, 1935.
[Received April 20.]

SIR: Referring to the persistent reports of Japanese efforts to persuade the Chinese authorities to "cooperate" with Japan, I have the honor to comment on the possible economic advantages and disadvantages to Japan and to China in case such a policy of "cooperation" should be effected to the degree regarded by the Japanese concerned as necessary for their purpose. (Political and military aspects of the situation will not be dealt with in this despatch.)

The purpose of Japan, it is presumed, is to solve Japan's economic problems by developing in China a source of raw materials for Japa-

[92] Sir Victor A. A. H. Wellesley, British Deputy Under-Secretary of State for Foreign Affairs.
[93] *Post*, p. 556; enclosure not printed.
[94] See pp. 877 ff.
[95] Anthony Eden, British Lord Privy Seal.

nese factories and a market for Japanese merchandise; the necessity which impels the Japanese in this economic program is the maintenance of their country as a world power; and the degree of "cooperation" will depend upon the requirements of Japan's program for the industrialization of Japan, industrialization being the means by which Japan's present position as a world power can be maintained.

Behind the purpose, the necessity, and the degree of cooperation lie the two primary facts that Japan's resources are limited and that Japan is overpopulated. Additional factors are that Japan's population is rapidly increasing, that the standard of the people's living is rising, that a new responsibility has been undertaken in assuming charge of thirty million Chinese in "Manchukuo", that barriers are being erected by Western powers which threaten Japan's present markets and make development of other markets imperative, and that if economic expansion should fail Japan will sink to a position of secondary importance in the world.

For the solution of these problems, it is natural that Japan should look to China. China is nearby, has raw materials needed by Japan, has great potentials as a market for merchandise, is militarily and politically ineffective, and is too distant for Western powers to obstruct successfully Japanese ambitions. (It may be noted that these advantages were possessed by Manchuria in 1931, when Japanese seized control of that area, and were part of the motivation of that seizure. These advantages still exist with respect to Manchuria but the results of the Japanese adventure there have not as yet improved the Japanese economic situation, which is probably one of the principal reasons why the Japanese have now turned to China Proper for a solution of their economic problems.)

Among those materials which Japan needs for its manufactures and which China has in varying degrees of quantity are raw cotton, sheep's wool, coal, iron-ore, wood-oil, tin, wolfram, and antimony. Among those articles which it may be supposed Japan would like to sell to China are cotton, wool, and silk manufactures, rayon, machinery, railway materials, and, in fact, almost any of its manufactured goods.

There are several difficulties confronting Japan in efforts to carry out a comprehensive program of "cooperation". (1) For Japan to obtain certain of China's raw materials to a degree necessary to Japan's fundamental needs would require in certain important instances considerable monetary investment for the improvement of production methods, of transportation facilities, and of the quality of produce. For example, in making China the source of her raw cotton, Japan would need to increase the acreage and to improve the quality of Chinese cotton, while to obtain coal cheaply and in needed quantities from Shanshi, which is the largest field of good coal in China, railway

construction and investments in machinery would be requisite. (2) China is using in increasing amounts her own raw materials, which Japan needs. (3) Certain raw materials wanted by Japan are not found in China and other necessary raw materials exist only in limited amounts. (4) The purchasing power of the Chinese is decreasing with the continuing depression and financial crisis, for an improvement of which financial outlay is necessary. Furthermore, a throttling of Chinese industry by the Japanese, which would presumably be one result of "cooperation", might tend to lower Chinese purchasing power to an even greater degree in certain aspects. (5) Certain Japanese manufactures are in competition with Chinese manufactures, such as silk and cotton products. (6) Japanese personal direction and control of enterprises would have to be permanently maintained as otherwise, as soon as such Japanese left the scene, the Chinese would cease to exert themselves on behalf of Japanese interests.

The advantages to Japan from effective "cooperation" have already been implied. (1) The Chinese form a vast potential market and, as a result of Japanese improvements, Chinese purchasing power in certain aspects might be increased. (2) Japan would have at her disposal an unlimited supply of cheap labor to man Japanese-controlled factories located in China. (3) Japan could make practically any industrial agreements with Chinese which Japan might desire. (4) Transportation costs between Japan and China are cheaper than between Japan and Western markets. (5) Other nations would be unable to compete with Japan in China. (6) Japan would be able to retard Chinese industrialization, thereby decreasing that threat to her own trade, reserving for her own use raw materials which would otherwise be consumed by Chinese industries, and selling Japanese-manufactured goods to Chinese who would otherwise buy Chinese-made articles.

The advantages to China would presumably be as follows: (1) China's industries would be under Japanese direction and therefore more efficiently administered. (2) China's transportation system would be of necessity improved. (3) China's production of raw materials would be increased and their quality and method of production improved. (4) The Chinese, under Japanese direction, would become more efficient in production and in manufacture. (5) There would be increased employment. (6) China would be better prepared, if and when the Japanese yoke was discarded, to develop economically.

The disadvantages would be perhaps as follows: (1) Increased efficiency and improved transportation and production would enrich the Japanese rather than the Chinese concerned. (2) Chinese producers and workers would be exploited and could not defend themselves against such exploitation because of unity of Japanese economic

policy and because of absence of third-party competition. (3) China's industrial development would be stultified. (4) China's raw materials, of which some important ones are limited in amount, would be used and perhaps exhausted for the enrichment of a foreign nation. (5) Government revenue would be decreased because Japanese-controlled industries could not be taxed as heavily as Chinese-controlled industries and because tariff rates would be presumably advantageous to Japanese rather than to Chinese interests.

From the foregoing it would appear that Japan would derive the principal benefits from "cooperation" and that success in this policy would seem to depend upon whether Japan would be able to make out of the venture (over and above her necessary investments in connection with carrying out the policy) enough to restore Japan's own economic situation in time to forestall economic and financial collapse at home. With so many varying and conflicting factors being involved, with the probability that new factors may be introduced, and with the situation still largely hypothetical, the question can only be suggested. Any attempt at a solution at present would be confined to speculation.

Respectfully yours, NELSON TRUSLER JOHNSON

793.94/6956

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

No. 3481 PEIPING, March 30, 1935.
[Received April 20.]

SIR: I have the honor to summarize comments made March 21, 1935, to a member of the Legation by a Japanese civilian (Mr. M. Yamakami, General Manager of the Peiping and Tientsin offices of the Rengo News Agency) with regard to the reported negotiations looking toward "collaboration" between China and Japan. Mr. Yamakami has close association with Japanese military officers.

Mr. Yamakami stated that the opinion of the Japanese military is not unified with regard to the Chinese policy of Mr. Hirota, the Japanese Foreign Minister. He amplified this statement by explaining that the so-called Central Group in the Japanese Army, of which the leader is General Hayashi, Minister of War, doubts the efficacy of the policy because it suspects that Chinese leaders will not actually entertain sincerely friendly feelings for Japan; that the so-called Left Group, headed by General Araki, former Minister of War, is opposed to the policy; and that the so-called Right Group, which is led by General Ugaki, Governor-General of Korea, and which is supported by Osaka capitalists, approves of the policy. (From what Mr. Yama-

kami said, it would seem that there is not very much difference between the Hayashi and the Araki groups and that the Kwantung Army in some aspects belongs to the one and in some aspects to the other.) Mr. Yamakami said that, as a result of the skepticism of the Hayashi group, General Isogai is being sent to China to replace General Suzuki as Military Attaché in order that he may watch those Japanese charged with the promotion of the Hirota policy and that other officers are being sent to China for the same purpose. He referred to General Isogai and these other officers as "Doihara men".

In speaking of the desires of the Japanese military with respect to China, Mr. Yamakami said that the military wants agreements of a strategic character in preparation for war with Russia, wants Japanese military officers to be attached to the National Government, and, in short, wants the Chinese military to become subservient to the Japanese military. He expressed the opinion, however, that the Kwantung Army would not engage in military activities in the near future, saying that all representatives of that army who visit Peiping insist that their slogan now is "Manchukuo first", meaning that they must devote their efforts toward consolidating the position of "Manchukuo".

Mr. Yamakami stated that he believes the prestige of the military is declining somewhat in Japan. This did not seem to give him cause for optimism, however, as he expressed the belief that, if the decline becomes too serious, the Japanese military will seize upon some serious blunder committed by those promoting the Hirota policy to give them a pretext to establish a military government at Tokyo.

Respectfully yours, NELSON TRUSLER JOHNSON

811.51693 Manchuria/6 : Telegram

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

SHANGHAI, April 1, 1935—1 p. m.
[Received April 1—12:35 p. m.]

152. 1. My 148, March 30, 11 a. m.[96] I have received following letter from Shanghai branch National City Bank signed by J. A. Macar, Assistant Vice President:

"With reference to your recent inquiry concerning the closing of our Mukden branch to become effective May 31, 1935, we wish to advise that since the major portion of our Manchurian business always has been in Harbin it was felt that internal efficiency warranted concentration on that branch."

[96] Not printed.

Andersen, Meyer and Company have verbally informed this office that in effect their Mukden branch was closed because of inability to meet Japanese competition.

CUNNINGHAM

893.918/91

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

No. 3486 PEIPING, April 1, 1935.
[Received May 4.]

SIR: I have the honor to transmit herewith, for the information of the Department, copies of despatches L–658 and L–661 Diplomatic of March 16 and March 20, 1935, respectively, from the Nanking Office of the Legation,[97] with regard to alleged unfairness in the manner in which censorship is applied to the outgoing telegraphic messages of newspaper correspondents in Shanghai. It will be noted that the American newspaperman who makes the complaint, Mr. J. B. Powell of the *Chicago Tribune*, contends that the censorship is administered in Shanghai "in a most inefficient and ignorant manner", excepting that evidently no censorship at all is applied to the messages of Japanese correspondents.

It will be observed from the Legation's reply of to-day's date, copy of which is enclosed,[98] that it is felt no useful purpose would be served in making a formal protest in the matter, as it is commonly known that the Chinese censorship lies completely in the hands of the Chinese military and that the civil authorities can bring no effective pressure to bear in the matter. Furthermore it is believed that the Japanese correspondents escape censorship by being permitted to send their messages by wireless or cable under the control of the Japanese Government. Mr. Peck has been instructed to call to the attention of the Chinese authorities, informally, the probability that the continuance of such an administration of the censorship would be finally prejudicial to China's own best interests as far as publicity is concerned.

There is also enclosed, in English translation, a copy of the revised censorship regulations governing the transmission of telegraphic messages,[98] as obtained from the Metropolitan Telegraph Office in Nanking. The Legation is watching the administration of these new rules, which have obviously objectionable features.

Respectfully yours, NELSON TRUSLER JOHNSON

[97] Neither printed.
[98] Not printed.

741.61/457 : Telegram

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

Moscow, April 2, 1935—6 p. m.
[Received April 2—6:14 a. m.]

134. My 129, April 1, 3 p. m.[99] Litvinov stated to me today that as a result of Eden's visit the Soviet Union and Great Britain would henceforth collaborate in all spheres of international affairs, that reference in joint communiqué recognizing that the integrity and prosperity of each was to the advantage of the other gave evidence that there would henceforth be no conflict between Soviet and British policy in the several countries. He specifically cited Japan in this connection. Litvinov will probably go to Geneva but will not go to Stresa.

Soviet press jubilant over results of Eden visit.[1]

WILEY

861.77 Chinese Eastern/1400

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

No. 1235 TOKYO, April 5, 1935.
[Received April 20.]

SIR: I have the honor to report that, at 10:15 on the morning of Saturday, March 23, 1935, at the Japanese Foreign Office the official representatives of Soviet Russia, "Manchukuo", and Japan signed the documents for the transfer of the Soviet interest in the Chinese Eastern Railway to "Manchukuo". Therewith control of the railway with its affiliated properties in North Manchuria finally passed out of the hands of Russia. Coincident with the legal transfer which took place in Tokyo the physical transfer of the railway began in Manchuria with a ceremony in Harbin. No unexpected development or sensation marred the culmination of the long negotiations.

The transfer documents were, as anticipated, four in number:

1. An agreement between "Manchukuo" and Soviet Russia for the transfer of the Soviet rights in the railway.
2. A subsidiary protocol relative to the same.
3. A protocol signed by the representatives of "Manchukuo", Japan, and Soviet Russia concerning the payments in goods.
4. An exchange of notes between Japan and Soviet Russia embodying Japan's guarantee of the payments by "Manchukuo" called for by the terms of the sale.

---

[99] Not printed.

[1] The Ambassador in the Soviet Union, in his despatch No. 539, April 22, reported the British Ambassador's statement that he and Mr. Eden "had at last been able to disabuse the Soviet Government of any idea that Great Britain was urging Japan to attack the Soviet Union" and also "that Sinkiang had never been mentioned in any conversation that Eden had had in Moscow." (741.61/476)

The texts of the above documents, as published in the Japanese *Official Gazette*, are being transmitted with despatch No. 1231 of April 5, 1935.[2]

On the same day, March 23, the government of "Manchukuo" signed a contract entrusting the management of the Chinese Eastern Railway to the South Manchuria Railway Company. The contents of this contract, as reported by the *Japan Advertiser* in its issue of March 24, 1935, are set forth in an enclosure herewith.[2]

The points in which the actually concluded terms of the sale differ from what was anticipated in previous reports are not great. The total sum of retirement allowances is not stipulated in the agreement; they are to be made under the existing regulations of the railway, and (according to the Counselor of the Soviet Embassy)* will amount to between twenty-eight million yen and thirty million yen, depending on the extent to which the new owners will make use of their privilege of retaining temporarily certain Soviet employees. The division of payments as between cash and goods installments is also slightly different from the anticipated figures. ¥23,300,000 was paid on the day of sale, ¥23,400,000 is payable in "Manchukuo" 3% Treasury bonds falling due in four installments over the next three years, and ¥93,300,000 will be settled in the form of Japanese and "Manchukuo" goods.

The attention of the Department is particularly invited to the contrast between the Japanese Government guarantee of "Manchukuo" payments for the railway rights and the Japanese Government refusal, in the Manchurian oil monopoly dispute, to agree to any proposition which imposes on Japan responsibility for "Manchukuo" matters. According to the translation of the Japanese Foreign Minister's note of March 25, 1935, to the British Ambassador, which according to semi-official statements will likewise serve as the basis of the Japanese reply to American inquiries on the subject of the oil monopoly in Manchuria [3] (despatch No. 1226, April 5, 1935 [2]), the Japanese reply included the following statements:

"The Japanese Government cannot, at all events, agree to any proposition which imposes responsibility on it concerning the action of the Government of Manchukuo nor to any view put forward on the premise of the non-recognition of Manchukuo."

"Although the Japanese Government is ready to do everything in its power to mediate between the interested parties to bring about an amicable settlement of their business affairs, it is not in a position to intrude in, or interfere with, such domestic affairs of Manchukuo."

---

[2] Not printed.

*See enclosed Memorandum of Conversation, March 28, 1935, between Mr. Coville and Mr. Rayvid, Counselor of the Soviet Embassy. [Footnote in the original; enclosure not printed.]

[3] See pp. 877 ff.

It will be recalled that, early in the railway sale negotiations, there were assertions from Japanese sources to the effect that "Manchukuo" must, as an independent state, be treated in a manner properly respectful of her sovereignty, and that Japan could not take any step regarding the railway purchase derogatory to that sovereignty. In spite of these early assertions, and in spite of the stand assumed on the oil monopoly question, one of the notes of March 23 from Mr. Hirota to Ambassador Yurenev states that "the Japanese Government undertake to guarantee the exact fulfilment by the Government of Manchukuo, within the respective limits of time set forth by the above-mentioned Agreement, of all the obligations of payment, in money as well as in goods, which the Government of Manchukuo are under in favour of the Government of the Union of Soviet Socialist Republics as the result of such cession in accordance with Article VII of the said Agreement." This sweeping support of the "sovereign state" in Manchuria grossly contradicts the Japanese disclaimer of responsibility, and refusal to assume responsibility in other questions in dispute.

In considering the repercussions of the sale of the Chinese Eastern railway to "Manchukuo" it may be recalled that Japan is making a financial commitment of considerable magnitude. The amount of Japanese capital involved is estimated as follows:

"Manchukuo" bonds to be purchased by the Japanese banking syndicate to finance the payments for the railway:	¥180, 000, 000
Estimated Cost of rehabilitation of the Chinese Eastern Railway	100, 000, 000
Total commitment	¥280, 000, 000

Actually the figure of ¥280,000,000 is a conservative estimate which may well be exceeded. Mr. H. W. Kinney of the South Manchuria Railway has estimated that the cost of rehabilitation of the Chinese Eastern Railway will be "upwards of ¥100,000,000", while recent newspaper estimates have ranged between ¥100,000,000 and ¥150,000,000. To be sure, not all of this sum will be called for in 1935 nor will the amount of the goods payments, ¥93,300,000, affect the Japanese yen exchange. Nevertheless, the seriousness to Japan of a commitment of this size may be gauged by the steps which were taken to prevent the initial cash payment of ¥23,300,000 from adversely affecting the yen exchange rate. Although the Industrial Bank of Japan gave the Soviets a yen check for ¥23,300,000 it was arranged that this check should be endorsed over to the Yokohama Specie Bank which in turn credited the Soviets with an equivalent amount in sterling from its London account.

There have been several other indications that the Japanese Government is concerned over the financial drain involved in such large investments in "Manchukuo". Some weeks ago the Finance Minister, Mr. Takahashi, warned against excessive investment. Several days ago a member of the Commercial Bureau of the Foreign Office mentioned to a member of my staff that the only large Japanese investment in 1935 in Manchuria would be the investment in connection with the Chinese Eastern Railway. The implication was that the movement of Japanese capital to Manchuria is being curtailed and will not be so large as in 1934.

Aside from the degree to which the financial resources of Japan are liable to be taxed (and this is not easy to assess), the commitment is important from a political point of view. The Japanese stake in Manchuria has been measurably increased, and it has become more vital to Japan by just so much that the Manchurian venture should be profitable. Accordingly it follows that it is just so much more important to Japan to retain complete control of the administration of "Manchukuo".

Respectfully yours, JOSEPH C. GREW

CHAPTER II: APRIL 5–MAY 31, 1935

Ambassador Grew on Japanese-Soviet relations following liquidation of Soviet interests in Manchuria; the Hirota program of "cooperation" with China and improvement in trade relations; consolidation of Japanese control in "Manchoukuo"; Japanese campaign to win over Siam; Chinese Ambassador Yen on improvement in Chinese-Soviet relations, May 13; revival of pressure by Japanese military for political changes in North China following raising of Japanese Legation to status of Embassy

761.94/825

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

No. 1236 TOKYO, April 5, 1935.
[Received April 20.]

SIR: With the signing on March 23 of the documents of the sale of the Soviet interests in the Chinese Eastern Railway to "Manchukuo", we have come to the end of a chapter in the relations between Soviet Russia and Japan. Moreover, it has been a critical chapter if one reexamines the reports submitted by this Embassy during the past three years and considers the conviction of the great majority of observers only a few months ago that war was inevitable and comparatively imminent. There has been abundant evidence during those years that Japan, at least certain reactionary and military elements in Japan, desired and expected to attack. That war has been tempo-

1. The intensive military preparations of Soviet Russia in Siberia.
2. Recognition of Soviet Russia by the United States.
3. The entry of Soviet Russia into the League of Nations.
4. The non-aggression pacts concluded by Soviet Russia with her western neighbors, leaving her greater freedom to defend her eastern frontiers.
5. The coming of Hirota and his policy of attaining results through peaceful diplomacy and conciliation.
6. The concentration of Japan on the political and economic consolidation of Manchuria.

While these factors have been of varying importance, their cumulative effect was compelling. Soviet preparedness coupled with Hirota's policy and influence have predominated. Hirota has accomplished by peaceful means what Japan sought to accomplish by war in 1904–5, and at least part of what the Japanese Army undoubtedly expected to accomplish by war in 1935 or 1936. The Russians have been sent north of the Amur and Japan now has Manchuria exclusively to herself.

We have come, then, to the end of a chapter. The question which now presents itself is: How will Soviet-Japanese relations develop in the new chapter now beginning? Many problems still remain for solution: the delimitation of the "Manchukuo"-Siberian boundaries, the disarmament of the frontiers, the revision of the fisheries agreement of 1928, the revision of the regulations governing the oil fields of North Saghalien, the recurrent controversy over the yen-ruble rate of exchange, and the fundamental issue of supremacy over the Mongol peoples and pastures. In the background, perhaps, but definitely and permanently in the picture is the military conception that Japan can never feel secure from potential Russian attack until she controls Vladivostok, the Maritime Province and Eastern Siberia up to Lake Baikal. There remains also the deep-rooted fear of Communism which influences the ruling classes in Japan.

In appraising the probable trend of the next few years it is obviously of the utmost importance to consider the several developments which have recently taken place in the world arena, directly affecting the Soviet position. With the rapid changes in current political history, certain of the factors mentioned above as having conduced to the avoidance of a Soviet-Japanese conflict have already undergone marked modification. As a result of the failure of the Soviet-American debt negotiations[5] and the consequent termination of a potential and important commercial friendship, a moral or psychological asset of Soviet Russia has been lost. Furthermore, the German decision to rearm alters the position of security in Europe which Soviet diplomacy has not unskillfully won. Finally, the continuing deterioration of China

[5] See *Foreign Relations*, The Soviet Union, 1933–1939, pp. 166 ff.

is a factor which redounds to the disadvantage of the Soviets in the Far East.

With regard to the termination of the brief Soviet-American honeymoon, the effect is two-fold. The Soviets have lost whatever advantage might have been found in American moral support, a support which was potentially capable of important development. Japan undoubtedly dreaded the development of that Soviet-American bond, far removed as it might be from an actual alliance. The net result has been a weakening of Soviet influence and a consequent strengthening for Japan.

As for the German decision to rearm, it is a blow to the Soviets as a European power. Russian calculations which led to her entry into the League and to an active part in the balancing of forces and counter forces must now be revised. We cannot yet determine in what way the orbits of the powers will readjust themselves, but it is certain that for even so vast a power as the USSR it is impossible to maintain a dominant position on both an Asiatic and a European front. That is the fundamental weakness of Britain, even as a sea power. For the Russians, who are sprawled out over land through a great area as yet poorly articulated by railroads, conciliation either with Europe or Asia is essential. If the USSR should become involved in a war in Europe, Japan would undoubtedly use the opportunity to seize the Maritime Province and more. She has done so before and would do so again.

The effect of Chinese deterioration is less likely to have a clear and simple reaction on the Soviet position. On the one hand it is an encouragement to predatory tendencies of the Soviets long manifest in Outer Mongolia and Sinkiang; on the other hand it so delivers China into the hands of Japan that the Soviet position is threatened. It is of course obvious that the Soviets can count on little support from China in case of a conflict with Japan. We are viewing today the expansion of Japan as a continental power and that fact is a portent of danger to the USSR.

With the foregoing in mind it may be seen that, coincident with the close of a chapter in the relations between Soviet Russia and Japan, circumstances have combined to alter the balance of power between these nations in favor of Japan. We may expect Soviet statesmen to seek to deal with this development along two general lines. In the first place the USSR will probably reciprocate and encourage the Hirota policy of conciliation as applied to the specific issues mentioned earlier in this despatch. In the second place the USSR may seek to devise some collective system of security with regard to the Far East. In this connection it may be recalled that so far back as September 13, 1934, the British Ambassador in Tokyo stated his belief that the

USSR stood ready at all times to enter into a Far Eastern pact with Great Britain, the United States, Japan and China.* In the recent Eden-Litvinov conversations we have witnessed, perhaps, an exploratory effort in this direction.

There is already evidence that the Soviets are more eager to conciliate Japan. During the Buir Nor incident which involved the sovietized Government of Outer Mongolia there was a marked disposition on the part of the USSR to avoid implication in the matter. At the fishery auction in Vladivostok this year Japanese bids were accepted without question at the rate of 32½ sen per ruble although last year the USSR sought to have the rate revised in her favor. There are of course, to be negotiations on this subject, but the fact remains that the Soviets showed no disposition to become involved in another dispute with Japan at the present time.

More important than the above somewhat tenuous evidence has been the marked change in the public pronouncements of Soviet officials with regard to Japan. It is only a year since Molotov,[6] Bluecher,[7] and others thundered against Japan; it is scarcely six months since the Chinese Eastern Railway negotiations degenerated for a time into a contest of vituperation seldom resorted to by nations not at war. At the present time, however, we find Mr. Litvinov hailing the success of the railway negotiations in a friendly tone, looking forward to negotiations on other questions, and hinting that an agreement might be reached for the disarmament of the Amur border. On the conclusion of the railway negotiations Mr. Litvinov telegraphed to Mr. Hirota:

"I feel sure that we will continue our further fruitful cooperation for elimination of any cause for conflicts and misunderstandings between our countries and for the strengthening of really friendly relations between them in the interests of our nations and of general peace."

The *Izvestia* and the Soviet press in general welcomed the news of the transfer of the railway in a tone of marked cordiality to Japan, if we may believe the reports which reached Tokyo. And last of all various members of the Soviet Embassy in conversation with members of my staff have expressed abundant optimism that the settlement of other problems will now be facilitated.† To be sure their optimism may be studied, but it is none the less indicative of the Soviet's determination to solve pending problems by diplomatic means.

With regard to the other Soviet approach to securing her Far Eastern interests, we have not yet been able to confirm the report that

*Enclosure No. 1 to Embassy's Despatch No. 979, September 18, 1934. [Footnote in the original; despatch printed in *Foreign Relations*, 1934, vol. III, p. 281.]

[6] V. M. Molotov, President of the Soviet Council of Commissars (Premier).

[7] Soviet Far Eastern Army commander.

†Enclosure No. 2 to Embassy's Despatch No. 1235, April 5, 1935. [Footnote in the original; despatch printed *supra*.]

Great Britain and the USSR have been exploring the possibility of some collective system of security in the Far East. Nevertheless such a step would be a logical one for the defense of the Far Eastern interests of England and the USSR.

We have seen then that the balance of power has altered in favor of Japan and we have mentioned the two general directions in which Soviet diplomacy may be expected to work. Here in Japan, however, we are concerned primarily with the Japanese reaction to these new developments. What will be Japan's attitude towards conciliation with Soviet Russia? What will be her attitude towards collective efforts to secure "the peace of East Asia" which she has come to consider her unique responsibility?

With respect to the first question Mr. Hirota in the last two weeks has repeatedly reaffirmed his policy of settling one by one through diplomatic negotiations the various outstanding issues. He did so in cordial terms in answering a telegram from Mr. Litvinov; he has done so at various dinners and ceremonies which followed in the wake of the railway transfer; and he has reported to the Diet in this sense. Mr. Hirota's prestige has been enhanced by his successful mediation in the Chinese Eastern Railway question and he should therefore be in a better position than before to carry out his policy of conciliation. Accordingly there seems good promise that the next chapter in Soviet-Japanese relations will witness the solution through diplomatic means of many of the problems enumerated above. At the same time it should be mentioned that the rearmament of Germany has aroused the expectation in Japan that the USSR may have to transfer at least a portion of the Far Eastern Red Army to Europe. This in turn might influence the chauvinist elements in Japan to oppose conciliation with Soviet Russia.

With regard to the rumors of a Far Eastern security pact, the statements of the Foreign Office spokesman on April 1 are significant. After denying that the Soviets had made fresh proposals for a pact of non-aggression or that official negotiations for the disarming of the Amur frontier had commenced, he went on of his own volition to mention the effect of the European situation on the Far East. He advanced the theory that the vital interests of Japan are confined to East Asia and that those of the Western powers are not vital in East Asia. He even expressed doubts as to the vital nature of Soviet interests in the Far East. He declared that there was a growing tendency for each region of the world to maintain peace in its own region, the peace of Europe to be maintained by Europe, of America by America, of Asia by Asia. In view of the thesis enunciated by Mr. Amau himself and others that "Japan is responsible for the peace of East Asia", his statement amounts to a thinly veiled declaration

that Japan would not look with favor on any negotiations for a collective system of security in the Far East. In fact, although Mr. Amau's statements sometimes reflect the opinions of the chauvinist elements in the Government rather than those of Mr. Hirota, there is little reason to doubt that the Japanese nation as a whole is determined in so far as possible to control East Asia by and for itself, and consequently will be inclined to disapprove of any attempts to impose restrictions, in the nature of a security pact, on Japan's activities.

In conclusion it may be said that in the broadest sense events in Asia once more largely wait upon the crystallization of the present fluid state of European politics. With uncertainty prevailing in Europe the Far Eastern policies of the USSR and the other Western powers must remain uncrystallized. This is patent to the Japanese. Meanwhile, as for Soviet Russia, it may be said that a policy of conciliation looms once more as a policy of necessity. It is fortunate for the Soviets that the question of major political importance, the liquidation of Russia's Manchurian interests, has been settled. It is even more fortunate that Japan's most vital interests lie in Manchuria and in China and not in Soviet territory.

With these considerations in mind it may be concluded that the next chapter in Soviet-Japanese relations will be less critical, because less vital to Japan, than the chapter which ended with the transfer of the Chinese Eastern Railway.

While the foregoing opinions are submitted after a careful study of the situation, I believe that in Japan it is always wise to recall that time and again the military has taken independent, drastic action. Accordingly there always remains a possibility, at present seemingly remote, that an inflammatory incident along the Manchurian border might lead to serious complications.

Respectfully yours, JOSEPH C. GREW

793.94/6969

Memorandum by the Second Secretary of Legation in China (Vincent)[8]

NANKING, April 10, 1935.

It is my opinion that Mr. Mennie's[9] analysis of the situation is near enough the mark to merit consideration.

There are believed to be three desiderata impelling Japanese policy (or ambition) toward China at the present time. They are (1) in-

[8] Copy transmitted to the Department by the Minister in China in his despatch No. 3513, April 17; received May 18.

[9] A. Mennie, Soviet First Secretary of Embassy in China at Nanking, who had a conversation with Mr. Vincent on April 8.

creased Chinese imports of Japanese goods, (2) an understanding with China providing nominally for cooperation between the two countries but actually recognizing Japan as the arbiter of affairs in the Far East, and (3) formation of a *cordon sanitaire* in the north which will effectively prevent contact between China and Russia through Mongolia.

The first of these desires has been partially realized with the virtual cessation of the boycott and may be accomplished further through revision of the Chinese import tariff and through Japanese investment in China of a character which will create a demand for Japanese goods. Japan is not now primarily interested in investment in China for the sake of putting capital to work, liquid Japanese capital not being sufficient to warrant this, nor for obtaining Chinese raw materials. Of the four commodities—petroleum, wool, iron, and cotton—comprising about two-thirds of Japan's imports, only cotton can be obtained from China in large quantities and the quality of this cotton must be greatly improved before it will be suitable for Japanese cotton mills. The promotion of trade and strategical security will be the motives prompting any Japanese investment in China for the present.

As Mr. Mennie states, an understanding with China which may be construed as approval of the Amau statement of April, 1934, will greatly strengthen Japan in dealing with the Western Powers in matters pertaining to China. Further, such an understanding, if sincerely observed by the Chinese, would allow the Japanese to view the possibility of a conflict with Russia with much less concern than they now do, and would permit them more freedom to prepare for the eventual extension and increase of their influence in the Netherlands India and Malay States area.

The desire for a buffer state or autonomous area under Japanese control between China and Russia is, as Mr. Mennie points out, contingent upon the failure to reach an understanding with China which can be relied upon. The Japanese, certainly the liberals, prefer an understanding. The military want both, but at the present time are probably prepared to be satisfied with one or the other.

JOHN CARTER VINCENT

861.77 Chinese Eastern/1408

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

No. 1782 PARIS, April 13, 1935.
[Received April 24.]

SIR: Referring to the Embassy's despatch No. 1253 of October 2, 1934,[10] and to the recent sale of the Chinese Eastern Railway, I have

[10] Not printed.

the honor to report, as a matter of record, that the Minister for Foreign Affairs, in reply to a written question by Deputy Susset, published a statement on page 4153 of the *Journal Officiel* of April 12, 1935, confirming that the French Government had intervened for the purpose of protecting French private interests in the Chinese Eastern Railway.

The Minister emphasised that "very explicit reserves had once more been conveyed to the Soviet and Japanese Governments immediately following the definitive conclusion of the arrangement relating to this enterprise".

Respectfully yours, For the Ambassador:
H. MERLE COCHRAN
First Secretary of Embassy

793.94/6949 : Telegram

The Second Secretary of Legation in China (Atcheson) to the Secretary of State

NANKING, April 16, 1935—3 p. m.
[Received April 16—1 : 39 p. m.]

72. My 70, April 15, noon.[11] Responsible Chinese official today informed me that, contrary to expectations in some Chinese circles and voiced in section of Chinese press that Japanese Consular conference in Shanghai would be immediately followed by renewed Japanese "demands" on China, the Japanese Minister yesterday, in calling upon the Acting Minister for Foreign Affairs, had not only not made any demands or proposals but had expressed Japanese Government's satisfaction at suppression of the anti-Japanese boycott and apparent increase of Chinese Government's control in this matter.

ATCHESON

500.C001/1105

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

No. 1244 TOKYO, April 19, 1935.
[Received May 4.]

SIR: I have the honor to report that on the occasion of Japan's effective withdrawal from the League of Nations on March 27 there was a tone of self-assured complacency and of calm superiority in Japanese public opinion, as expressed in the press, that contrasted sharply with the feeling of uncertainty and apprehension which two years ago pervaded the bulk of the editorial comment on Japan's

[11] Not printed.

decision to leave the League.* Furthermore, whereas in the early part of 1933 there was a mass of newspaper and other comment on the pros and cons of Japan's decision, the arrival of the momentous date of March 27, 1935, was received with relative indifference on the part of the public and of the press, excepting the four mild editorials that will be dealt with in this despatch.

The public mood over Japan's definitive and successful separation from the League is not unlike the frame of mind of one who looks back upon dangers happily past and fears once felt but now removed. The recent reaction can be explained through an analysis of the apprehensions entertained two years ago in the light of the events that have since taken place and the expected developments that have failed to materialize. In March, 1933, it was thought in many quarters in Japan that the Western nations would impose an economic boycott on Japan or that if such a contingency did not arise Japan's foreign trade would at any rate suffer disastrously; that there would be a complete moral isolation of Japan in the family of nations; that efforts would be made to force Japan to relinquish its Mandated Islands in the South Seas; that Japan would become involved in a dangerous naval race; and that the United States might possibly take advantage of Japan's isolated position to develop its trade in the Far East to this country's disadvantage. Such were the misgivings of a large number of Japanese observers and even the chauvinists admitted the possibility of dangers ahead although they maintained that Japan could successfully withstand any of these eventualities and that any isolation that might follow would be "glorious isolation".

Nevertheless, not one of the developments anticipated uneasily by the moderates and defiantly by the chauvinists has come about up to the present date. On the contrary, there has been no economic boycott against Japan and Japan's foreign trade has prospered in the last two years, with an increase in the world demand for Japanese goods.† In this connection, it is interesting to note that in the League Council's recent resolution against Germany's unilateral decision to abrogate the military clauses of the Versailles Treaty,[12] the application of economic and financial measures against violators of international agreements is specifically limited to European countries. Instead of having become morally isolated in the family of nations in the past two years, Japan now enjoys a stronger and more feared, if not more respected, position than it did before. The League has apparently

*Embassy's despatch No. 312 of March 7, 1933. [Footnote in the original; despatch not printed.]

†Embassy's Despatch No. 1206 of March 20, 1935. [Footnote in the original; for text, see p. 949.]

[12] Treaty of peace with Germany, signed June 28, 1919, *Treaties, Conventions, etc., Between the United States of America and Other Powers*, 1910–1923 (Washington, Government Printing Office, 1923), vol. III, pp. 3329, 3399.

abandoned any idea it may have entertained of demanding that Japan give up its Mandated Islands and has not even conducted any serious investigation of the report that Japan has been fortifying those islands. No naval race has as yet evolved, Japan has announced its abrogation of the Washington Naval Treaty in the face of American and British opposition, and there seems to be little or no prospect of Japan's weakening in its firm determination for naval parity in principle. Since Japan's position has not weakened, the United States has been unable to "take advantage" of this position to enhance its economic position with China and Manchuria. On the other hand, Japan is closing the door on American petroleum interests in Manchuria and the Foreign Office spokesman has enunciated a "hands off China" policy the results of which are yet to be seen.

Besides, from the Japanese point of view certain welcome events that were not predicted in the early part of 1933, have definitely occurred, and others are reported to have occurred. The Chinese Eastern Railway issue with Soviet Russia has been peacefully settled. The European political situation has become more disturbed. The League has shown its impotency in dealing with the Bolivian-Paraguayan warfare [13] and with the Italo-Abyssinian dispute.[14] "Manchukuo" has been recognized by one country, at least—El Salvador. A British economic mission has visited "Manchukuo". Germany has flouted the League of Nations and has followed the lead of Japan in unilaterally violating "unreasonable" international agreements.[15] And it is reported that China and Japan have started negotiations looking toward a diplomatic *rapprochement.*

Four editorials that appeared in the vernacular press on March 27 of this year may be taken to illustrate the changed attitude in this country towards the League of Nations. While formerly there existed some doubt as to the advisability of Japan's decision to sever its connection with the League, the step is now looked upon as a happy "fait accompli" and the newspapers even go so far as to sit in judgment on the League. The *Jiji* states that, while two years ago Japan was "utterly isolated", today its international position is "unexpectedly peaceful"; that El Salvador has formally recognized "Manchukuo" and the Soviet Union has given virtual recognition through the sale of the Chinese Eastern Railway; that Lord Barnby's report [16] demonstrated the fallacy of the Lytton report; [17] that Japan and China are on the

[13] See vol. IV, pp. 7 ff.
[14] See vol. I, pp. 594 ff.
[15] See vol. II, pp. 294 ff.
[16] Report on British trade prospects in Manchuria made by Lord Barnby, chairman of the Federation of British Industries mission to Japan and Manchuria, reported in the press on December 22, 1934, following the mission's return from the Far East.
[17] For text, see League of Nations, *Appeal by the Chinese Government, Report of the Commission of Enquiry* (Geneva, October 1, 1932).

way to renewed friendship; that now no nation is taking exception to Japan's continued possession of the Mandated Islands, whereas this matter was once the subject of discussion among League Powers; that Germany left the League in 1933 [18] and Paraguay followed suit; [19] that the League is unable properly to dispose of the dispute between Italy and Abyssinia; that Germany's recent abrogation of part of the Versailles Treaty may "shake the foundations of the League"; and that Japan need not fear the League, although Japan would have been placed at a disadvantage by withdrawal if the League had been a "really strong medium for peace making". The *Kokumin* states that the League Covenant has many defects; that the League itself is a product of the Great War and is limited to European nations; that the nations of Europe fought in that war not for the sake of justice but each in a contest for superiority; that the Great War was different from Japan's wars against China and Russia and from the fighting in Manchuria; and that it is impossible for such an organization as the League to show any effective ability for peace making without at least a strong military force. The *Nichi Nichi* states that events subsequent to the Manchurian "incident" have proved that the League attached more importance to the upholding of an unreasonable formula than to a settlement based on actualities; that the League put obstacles in the way of the development of "Manchukuo", yet today that country is a "force in the Far East" which nobody can ignore; that the new state has been strengthened by the successful conclusion of the negotiations for the sale of the Chinese Eastern Railway; that there is an increasing tendency in China to cultivate friendship with Japan; that there are indications that with the advent of the Roosevelt Administration the United States departed from its policy of supporting the League against Japan; that the United States is coming to a realization of the motive which actuated Japan when it decided to "stake its national existence" in a fight for the independence of Manchuria; and that the prevailing situation of peace in the Far East, partly a result of Japan's withdrawal from the League, is a "curious commentary" on the League of Nations, "which is now unable to do anything about the situation arising from the German rejection of the Versailles Treaty and also from the dispute in Abyssinia." The *Yomiuri* states that there was a time when Japan was threatened with international isolation and that this threat was enhanced by an increase in the number of advocates of the "Stimson doctrine of non-recognition of Manchukuo"; that fortunately the threat came to an end as the Powers came to know the "real intentions of this country in the Far East"; that Japan is now enjoying a "boom in trade, the like of which was never known before";

[18] See *Foreign Relations*, 1933, vol. I, pp. 265 ff.
[19] See telegram No. 14, February 23, 1935, 6 p. m., vol. IV, p. 11.

that "Manchukuo" is making steady progress as an independent State; that El Salvador's recognition of "Manchukuo" shows that the principle of non-recognition has ceased to have a hold on "the League Powers"; and that it will not be long before Soviet Russia and Great Britain enter into formal relations with the new State.

Although the military authorities have made no pronouncement anent Japan's final separation from the League, it is doubtful whether they could be entirely pleased with the quiet manner in which the event has come to pass, inasmuch as this very separation from the League has been one of the principal bases of the military's contention that 1935 and 1936 would be "crisis years" for Japan.

Respectfully yours,

JOSEPH C. GREW

893.001 (M) Pu Yi/9

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

No. 1254 TOKYO, April 20, 1935.
[Received May 4.]

SIR: I have the honor to submit the following report on the present visit of "Emperor Kangte" of "Manchukuo" to Japan.

On the morning of April 2, 1935, Kangte left Hsinking by rail, in all formality, commencing a visit to the Emperor of Japan, anticipated in the press for several months as for the purpose of expressing the gratitude of "Manchukuo" for the cooperation and assistance accorded by Japan. He was accompanied by a retinue of 150 members. At Dairen the same day he went aboard the *Hiei*, a training cruiser of the Japanese navy, and departed thereon for Japan under escort of destroyers. Off the coast of Japan on April 4 the *Hiei* was met by the combined fleet of the Japanese navy with full honors. On the morning of April 6 the *Hiei* reached Yokohama. Prince Chichibu, brother of the Emperor of Japan, came aboard and greeted Kangte, after which the party proceeded by special train to Tokyo. On the Tokyo station platform the Japanese Emperor was awaiting the visitor when the train pulled up, and it was there that occurred their first meeting, introduced by Prince Chichibu. They shook hands. After conversing a few moments through an interpreter, the Japanese Emperor presented to "Emperor Kangte" the princes of the blood who were drawn up in attendance. Next Prince Chichibu escorted the guest to the imperial Akasaka detached palace which was given to him as his residence while in Tokyo.

With these formalities began a stay which has been given great publicity in Manchuria and Japan and has been managed with marked dignity and respect. News connected with it has been the leading

feature of the Japanese press for several weeks, and both the treatment of the visitor and the tenor of the newspaper accounts have been unexceptionally deferential. Observance of the forms of respect due a visiting sovereign has been meticulous. The program at Tokyo included several functions at the Emperor's palace; personal decoration of the visitor by the Emperor; a joint review of troops, entertainment of Kangte at a banquet given by the Japanese government at the premier's residence; visits by Kangte to the Meiji shrine, the Yasukuni shrine (commemorating Japan's war dead), and the Tama tomb (of Emperor Taisho); entertainment at the Akasaka detached palace by the visitor in honor of Prince and Princess Chichibu and Prince and Princess Takamatsu, and again in honor of high officials; and an official reception for the visitor by the municipality of Tokyo. On April 15, after a sojourn of nine days, "Emperor Kangte" departed by special train for Kyoto, and will visit historic places in central Japan before re-embarking for Manchuria about April 25.

Expense has not been spared to impress the public with the importance of the guest as a visiting sovereign. The cities along the route have been conspicuously decorated for the occasion. Street traffic in Tokyo was several times completely dislocated, and train schedules had to be modified drastically. The money outlay of the two governments on account of the visit amounts to approximately Yen 1,300,000, which is in addition to expenditures made by municipalities. Extensive special precautions taken by the police must have added further to the aggregate cost.

Editorial comment on the visit has uniformly regarded "Manchukuo" as a distinct and sovereign state, though with interests common to the interests of Japan. One simile stated that the relations of the two countries are as interdependent as the wheels of a carriage. Two newspapers mentioned suggestively Kangte's rightful claim to the throne of China. No comment which has come to the Embassy's attention has intimated any relation of subservience to Japan on the part of the present regime in Manchuria. As for the popular attitude, it has been one of respect without great enthusiasm.

In evaluating the significance of the hospitality accorded to "Emperor Kangte" it would be an error to presume that the official desire to present to the public the national guest in the role of an independent sovereign is for foreign consumption only. The authorities no doubt realize the great difficulty of carrying conviction on that score abroad. The matter of interest is that, in a display for home consumption, the attitude of deference to an independent sovereign has been so consistent. This is food for reflection. If annexation is contemplated, public opinion built up by the conduct of the present visit will prove an obstacle rather than an aid. The manner in which "Emperor

Kangte" has been received is confirmation by the present government of Japan for the decision of an earlier cabinet that the existence of a separate state in Manchuria satisfactorily meets the exigencies of the situation. The Department will recall that the idea of a separate state in Manchuria was masterfully defined by Count Uchida [20] in a memorandum supplied to Lord Lytton's commission at Dairen in May 1932 [21] (page 8, enclosure 4, strictly confidential despatch No. 60, July 16, 1932 [22]): "Japan wishes to see the Manchukuo Government in a position where it will be able to maintain peace and order and where it will develop industrial and commercial resources in such a manner that not only the inhabitants themselves but other nations involved will derive benefit. It is, of course, greatly to be desired that the Manchuria Government should be able to defend itself, with its own resources, against aggression from outside forces . . .[23] recognition of the Manchukuo Government furnishes the only practical solution which provides the feature of permanently removing Manchuria as a constant source of danger to the peace of the Far East and the world generally." Whatever the necessities of assistance to the regime in its infancy, the reception accorded Kangte would tend to indicate that the far-reaching plan laid down in the prophetic words of Count Uchida, who seems to be one of the important minds back of the changes that have come about, remains in official favor.

Respectfully yours, JOSEPH C. GREW

894.00/543

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

No. 1255 TOKYO, April 20, 1935.
[Received May 4.]

SIR: In informal conversation with the Minister for Foreign Affairs after the dinner which he gave on April 10 for the American Economic Mission, Mr. Hirota told me that when he had recently announced that there would never be war while he was in office he had rather expected an outburst from some of the reactionaries, but the truth was no one dared to raise a voice because they knew that he was directly expressing the views of the Emperor. Mr. Hirota said that there were reactionary elements in Japan but that the "democratic" elements were stronger and were growing in strength. The political parties are looking for a leader who will command the confidence of the public and he said that he was today approached by one of the parties in this connection; he however refused positively to have any-

[20] Then president of the South Manchurian Railway Co.
[21] Not printed.
[22] Despatch printed in *Foreign Relations*, 1932, vol. IV, p. 149.
[23] Omission indicated in the original.

thing to do with party politics because he must represent the nation and must therefore keep out of domestic politics and avoid making political enemies or having political ambitions. He emphasized his conviction that the "democratic" influence in the country is steadily growing in strength.

While there is some talk of a waning influence on the part of the military, I am not yet prepared to confirm Mr. Hirota's stated conviction that the so-called "democratic" influence in Japan is steadily growing in strength. The Embassy in due course will endeavor to analyze this situation.

Respectfully yours, JOSEPH C. GREW

761.93/1543

The Secretary of State to the Minister in China (Johnson) [24]

No. 1638 WASHINGTON, April 22, 1935.

SIR: You are informed that reports have reached the Department that a secret agreement was concluded in 1932 by General Chin-Shu-jen, at that time Governor of the province of Sinkiang, and the Government of the Union of Soviet Socialist Republics and that public reference to such an agreement is contained in an article by M. André Duboscq published in the Paris *Temps* of February 5, 1934, a photostatic copy of which is enclosed for your information.[25]

The Department would be glad to receive such comments as you may care to make on M. Duboscq's analysis of the political and economic situation in Central Asia and to have you endeavor discreetly to procure information as to the accuracy of his statement that an agreement had been made between General Chin-Shu-jen and the Government of the Union of Soviet Socialist Republics.

The Department would, of course, appreciate receiving in addition any information which you may be able discreetly to procure concerning the provisions of the alleged agreement and as to whether the present Governor of Sinkiang, General Sheng Shih-tsai, as well as the Soviet Government, considers such agreement as being now in force, and also concerning any other agreements that may have been concluded between the Governor of Sinkiang and the Government of the Union of Soviet Socialist Republics.

A similar instruction is being sent to the American Embassy at Moscow.

Very truly yours, For the Secretary of State:
R. WALTON MOORE

---

[24] See last paragraph stating that a similar instruction was being sent to the Embassy at Moscow.

[25] Not printed.

793.943 Manchuria/5

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

No. 1643 WASHINGTON, April 22, 1935.

SIR: The receipt is acknowledged of the Legation's confidential despatch No. 3382 under date February 27, 1935, forwarding and commenting upon Mukden's despatch No. 51 of February 16, 1935, in regard to the possible relinquishment by Japan of its extraterritorial rights in "Manchukuo".

The Department notes the views expressed by Consul General Ballantine and the Legation's comments with regard to the matter of withdrawing American consular representatives from Manchuria in the event of the relinquishment by Japan of extraterritorial rights in that territory and of an attempt by the "Manchukuo" authorities to assume jurisdiction over American nationals. In considering this subject the Department would necessarily take into account not only tangible American interests which are discussed in the despatches under reference but also political interests viewed from the standpoint of American policy, a phase of the subject which was not touched upon either by the Legation or the Consul General. It is suggested, therefore, that in reporting further on this subject the Legation and the Consulate General give consideration to these political factors as well as the more tangible material ones in formulating recommendations in the premises.

The Department desires that the Legation keep it currently informed of developments and of the views of other interested legations in regard to these questions.

Very truly yours, For the Secretary of State:
WILLIAM PHILLIPS

761.93/1546

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

No. 540 Moscow, April 23, 1935.
[Received May 15.]

SIR: I have the honor to report that in the course of a conversation with Doctor W. W. Yen, Ambassador of the Republic of China to the Union of Soviet Socialist Republics, I asked Doctor Yen if he had discussed the question of Sinkiang with Mr. Litvinov. He replied that he had had a very full discussion of the question and one which had been on the whole satisfactory. He said that Litvinov had assured him categorically that the Soviet Union had no political or military designs on Sinkiang and that the only interest of the Soviet

Union in Sinkiang was economic. He added that Litvinov seemed to be very apprehensive about the possibility that the Japanese might extend their westward advance as far as Sinkiang. Doctor Yen commented that he considered this absurd.

Doctor Yen then went on to say that the Bolsheviks were, however, actually in control of the Chairman of the Provincial Council of Sinkiang. He said that the Chairman of the Provincial Council for some years had had a guard of White Russians, that this guard had proved to be inadequate to put down insurrections of local authorities in Sinkiang, that the Chairman of the Provincial Council had then called on the Soviet authorities of Semipalatinsk for help, that these authorities had sent to his aid a large number of soldiers and some officers of the Soviet Army clothed as civilians. These men had then donned the uniforms of the Chairman of the Provincial Council and had become his chief armed force. Doctor Yen asserted that two thousand of these members of the Soviet Army today constituted the personal guard of the Chairman of the Provincial Council and had the Chairman completely under their control—a Praetorian guard.

Doctor Yen informed me that in the course of the summer he himself intended to make a trip to Sinkiang and asked me if it might be possible for me to accompany him. I replied that I thought that the effect produced if I should do so would be somewhat too spectacular to be desirable.

Doctor Yen further informed me that Hirota had recently asked Chiang Kai-shek if he might make a visit to Nanking to call on the Generalissimo this summer and that Chiang Kai-shek had agreed to receive Hirota in Nanking. Doctor Yen added that last summer Chiang Kai-shek had refused a similar proposal from Hirota. Doctor Yen said that Chiang Kai-shek had not in any way deviated from the general principles which he had enunciated to me in the course of our conversations of last November in Nanking but that he was having to make concessions to Japan in order to prevent military action by the Japanese Army. He said that Wang Chung-wei [*Ching-wei?*] had informed the Japanese that China was ready to accept Japanese advisors in addition to foreign advisors. Doctor Yen further asserted that he had private information that the military and naval groups of Japan had set a time limit to Hirota's attempt to settle Sino-Japanese relations satisfactorily by peaceful means. He said that he understood that the military and naval leaders of Japan had informed Hirota that if he could not obtain a satisfactory settlement from the Chinese Government by June 30, 1935, military action would begin.

Doctor Yen stated that on his trip through Siberia and after his arrival in Moscow he had been treated with demonstrations of friendship and affection such as he had never known in the Soviet Union and added that he felt that the Soviet Government would now attempt

sincerely to improve relations between the Soviet Union and the Republic of China.

Respectfully yours, WILLIAM C. BULLITT

793.94/6962 : Telegram

The Second Secretary of Legation in China (Atcheson) to the Secretary of State

NANKING, April 25, 1935—noon.
[Received April 25—4 a. m.]

83. 1. A vice head of a Government Ministry who is Cantonese has informed me that the present apparent dilatoriness of the Japanese in pushing their program to aid the Chinese Government had given the latter an opportunity to make progress toward an effective *rapprochement* with the Southwest and has given the Canton party time to realize that it must cooperate with Nanking for its own sake as well as for the sake of the rest of China. Hu Han-min, he stated, is really a dying man, and can no longer be considered a protagonist of great importance.

2. Informant stated that the Chinese Government is at present [tending?] to the belief that the Japanese will not make any further definite moves until some time in the coming summer after the Kweichow-Szechuan situation is liquidated and Chiang Kai-shek takes up summer residence at Kuling. The Japanese, he indicated, have not so far made any actual demands; they have merely "mentioned" their desires and something more officially articulate can surely be expected before the summer passes.

3. There is undoubtedly a lull in Japanese-Chinese conversations which gives appearance of protraction and, while a head of the same Ministry recently remarked that the situation had reached a "deadlock", it would probably be more accurate to say that the Chinese are delaying action in respect to desires and the Japanese are exercising patience and marking time.

ATCHESON

761.93/1541 : Telegram

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

Moscow, April 26, 1935—noon.
[Received April 26—8:55 a. m.]

159. Reference my 157, April 25, 6 p. m.,[26] and despatch No. 540, April 28 [*23*]. Tass report dated yesterday stated that at General

[26] Not printed.

Congress of Sinkiang representatives held at Bakhty on April 10th, to celebrate second anniversary of formation of new provincial government, the chairman of the Provincial Council "Governor of the Province" announced that his government was completely convinced that the Soviet Union had no aggressive designs on Sinkiang and that complete friendly relations existed between the two states.

The report further states that the Sinkiang Congress transmitted a telegram to Nanking reiterating its loyalty to the Nanking Government and asking for further cooperation.

BULLITT

893.00/13106

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

No. 3539 PEIPING, April 29, 1935.
[Received June 1.]

SIR: I have the honor to refer to the Legation's despatch No. 3504 of April 12, 1935,[27] regarding present political conditions in Sinkiang, and to enclose a copy of despatch No. 914 of April 24, 1935, from the Consulate General at Tientsin [27] transmitting information concerning the same general subject. The despatch, besides offering further corroboration of the general impression that the Soviet-Russian political influence is on the ascendency in Sinkiang, includes interesting material as regards the increasing diversion of that province's trade into strictly Russo-Sinkiang channels. It is not without interest to note that the rebel Ma Chung-ying is said to be now established in south Sinkiang with his Tungan followers, and that he is reported to be maintaining himself in a position of independence from the Tihwa regime, possibly with the support, it is alleged, of the British.

In this connection, it may be remarked that Sir Charles Bell, who is the author of several books on Tibet and for some time acted in the capacity of British political officer at Gartok, southwest Tibet, is now reported to be travelling extensively among the Mongols in the region west and southwest of Harbin, and that his later itinerary comprises a trip via Suiyuan to visit the Panchen Lama in Northwest China (possibly at Sining, Chinghai). It is not known what significance, if any, his peregrinations may have for political developments in Sinkiang and elsewhere in the Northwest.

Respectfully yours, For the Minister:
F. P. LOCKHART
Counselor of Legation

[27] Not printed.

793.94/6990

The Second Secretary of Legation in China (Atcheson) to the Minister in China (Johnson)[28]

L–695 Diplomatic NANKING, April 30, 1935.

SIR: I have the honor to refer to my confidential telegram of April 25, 12 noon (No. 83 to the Department), reporting remarks made to me by the vice-head of a National Government Ministry in regard to the present Sino-Japanese situation.

1. Certain of the informant's remarks seem to approach the truth:

That in their *démarche* which began in January 1935 the Japanese have so far made no presentation of formal demands but have "mentioned" their desires in respect to present and future relations between China and Japan;

That following the suppression of the anti-Japanese boycott, the Chinese Government has been taking no concrete action toward meeting those desires and is resting on the belief that the Japanese will not make any concerted move toward pressing forward their program for Sino-Japanese cooperation until some time during the coming summer after the communist-bandit situation in Szechwan and Kweichow (and Yunnan) is liquidated and General Chiang Kai-shek takes summer residence at Kuling; and

That something more officially articulate by the Japanese than the mere mentioning of desires is to be expected with certainty before the summer shall have passed.

The statements of this Vice Minister have acted in my mind to confirm a conviction that the Japanese protagonists in the present drama have not formally presented any list of formal demands and that the nearest approach to a demand, as the term is generally understood, have been oral representations, doubtless strongly emphasized and perhaps repeated, looking to an improvement in Sino-Japanese relations and suppression of the anti-Japanese boycott. In my opinion, the suggestions and proposals which Japanese officials have made to Chinese officials in conversation have for the most part been much milder in tone than the descriptions of Japanese requirements which the Japanese Foreign Office has used the foreign and other news correspondents in Tokyo to make clearly known to China and the world. A review of the conversations which this office has had with Chinese officials and others tends to support this conviction. I refer particularly to the statements made in confidence by subordinate officials. Speaking as personal friends and knowing that they would

[28] Copy transmitted to the Department by the Minister in China in his despatch No. 3551, May 7; received June 1.

remain anonymous, their statements in general point with fair clearness toward the truth.

It has been apparent that the conduct of the Japanese-Chinese conversations concerning a *rapprochement* have since January been chiefly in the hands of representatives of the Japanese Foreign Office and this is undoubtedly a strong indication, in the light of the known phases of the conflict in respect to China policy which goes on between the Foreign Office and the Japanese military, that the Japanese diplomatic agents have employed a less abrupt and more indirect approach than would have been the case if the military party in Japan had not decided, as seems true, to give the Foreign Office a chance to show what it could accomplish.

2. The Japanese have of late shown a striking lack of vigor in pushing their program with the Chinese. This lowering of the pressure is providing the Chinese an excuse to procrastinate in meeting their wishes and is, one may believe, predicated upon a policy of temporary patience, following the initial and somewhat bombastic stage of the *démarche*. The Japanese are giving the Chinese an opportunity to pave the way among themselves to bring about the kind of *rapprochement* which the Japanese have conceived. In other words, the Japanese are marking time.

The present lull in important conversations between Japanese and Chinese officials has perhaps been a logical sequel to the bee-hive activity at the end of January and through February, of Mr. Y. Suma, First Secretary of the Japanese Legation and Consul General in Nanking, in describing Japanese hopes for Sino-Japanese cooperation to General Chiang Kai-shek, Dr. Wang Ching-wei, Dr. Sun Fo, General Huang Fu, and other Government leaders, great and small. One takes the example of Mr. Suma because, except for some conversations elsewhere concerning pending North China affairs, Nanking is the nerve center of developments affecting the National Government and has now, it is believed, become the center of Japanese political activities in accordance with Japanese pronouncements that Japan would concentrate diplomatic activities in the capital rather than continue to attempt "local settlements" in other places. To venture an explanation of Mr. Suma's descriptive contribution to the journalese jargon of Far Eastern diplomacy, the former "water fowl policy" of the Japanese, characterized by a smooth surface with busy paddling underneath and propulsion hither and yon, has been changed to a "woodpecker policy" under which the woodpecker sits in one place and pecks away until he has accomplished his purpose.

3. The Minister of the informant, who was quoted in the telegram under reference, some days previously in conversation described the present Sino-Japanese situation as a "deadlock" but this can scarcely

be accepted as accurate. The term deadlock smacks too much of face saving; it implies something of an equality in strength between China and Japan in the discussions initiated and prolonged by the Japanese; and the Chinese are not, of course, in the fortunate position of an equal in the contest. This fact goes a long way to explain the general pessimism which throughout the past three months has characterized the outlook of Chinese officials upon the future of China in respect to relations with Japan. They realize the helplessness of their Government in its present predicament. They know that it can do little but delay, and then not for too long, in meeting Japanese desires. They reasonably fear that if the Japanese are pacified too readily or too successfully, the incumbent Government cannot survive the wrath of its internal enemies. The dilemma is indirectly expressed in the Government's attempt to explain its policy or lack of policy to the Chinese people by reversing, with characteristic sophistry, one of the specious political slogans the Chinese delight in: the former political philosophy was *an nei jan wai* (roughly, pacify the internal enemies—the Southwest, et cetera—and repel the external, meaning the Japanese) and this has now been changed to *jan nei an wai* (conciliate the external enemy and suppress the internal, meaning the Communists). Neither of these formulas is satisfactory; the Government itself knows that it cannot hope to endure unless it defeats both the external and internal enemies or unless it conciliates both; and it knows that the accomplishment of either double task is an impossibility.

4. Out of the situation brought about by the Japanese *démarche*, there are beginning to appear manifestations of a profound change in the Chinese official mind. It is acquiring something of what the Japanese, using the phrase in a different sense, have often spoken of with respect to their pre-1931 difficulties in Manchuria as a sense of the realities. There have been many times in China's history when the Chinese have realized that they must give in to superior force and have, in their own fashion, capitulated before superior force as a temporary device adopted of necessity but with hope that in the end the enemy would be circumvented or overcome. There are few Chinese officials at present who see any prospect of China ever equalling Japan in effective military strength, of successfully competing with Japanese goods, of winning effective support from the League of Nations or other countries against the Japanese. It is safe to say that there are now not any who can simulate to themselves any hope of satisfying the Japanese by much less than actualities. For the first time, perhaps, Chinese officialdom has generally become perspicacious enough to know that equivocation is useless. The rapidity and apparent success with which the Chinese Government suppressed the anti-Japanese boycott, so long officially described as an uncontrollable manifestation

of spontaneous popular feeling, is significantly indicative. The Japanese Minister, during a call on April 15 on the Chinese Minister for Foreign Affairs prior to departing for Japan, complimented the Chinese Government upon its success. The Chinese Government in this has done the concrete thing and has not, as has so often been the case in the past, depended upon the semblance instead of the reality. The Chinese have come to a pitiful pass and they are not able to deny the truth to themselves. Turning from practical politics to the more spiritual phases of the profound change that has been worked in the Chinese mind, there is no more poignant example than the complaints recently appearing in the vernacular press against the Japanese air of superiority. The Chinese press "demands" that the Japanese treat as equals a people who have traditionally indulged themselves in a sense of superiority over foreigners of every nationality.

Being without hope, the Chinese appear nevertheless to be making an attempt to soften as much as possible the blows they expect. While delaying further action in meeting Japanese wishes, they look to be manoeuvring for a position which might enable them to make a show of bargaining with some semblance of equality in the contest that is looming before them. Whether with false hopes or not in this particular connection, they seem to be making a strong play for Japanese good will. This has been indicated in various ways—in the pronouncements of Dr. Wang Ching-wei and General Chiang Kai-shek and generally in the cordiality which Government officials here exhibit toward Japanese officials. The cordiality of Chinese officials was very noticeable at Mr. Suma's reception on March 21 for the Tokyo *Asahi* "goodwill" fliers which was attended by a large number of them, including the Nanking Garrison Commander and a large staff of officers. The one remarkable exception was the then Mayor of Nanking, Mr. Shih Ying, who refused to participate in or hold any functions for the fliers, although instructed to do so, and shortly thereafter his resignation was accepted. While opinions differ as to whether his recalcitrance on this occasion was the determining cause of losing his office (he has lacked important political backing and was replaced by a henchman of Dr. Sun Fo), Mr. Suma informed me after the appointment of a new Mayor that the Japanese were very displeased over his lack of official courtesy to the fliers and had had various previous difficulties with Mr. Shih. He added that he had nevertheless not "requested" Mr. Shih's retirement but his manner of making this statement carried broad intimations, (and incidentally manifested the feeling of power enjoyed by the Japanese in respect to their present position in this country).

A startling evidence of the desire to placate the Japanese was the remark made to the American Minister by Mr. Tang Yu-jen, Ad-

ministrative Vice Minister for Foreign Affairs, on February 23, 1935, that the Chinese and Japanese Governments were in tacit agreement that the question of Manchuria should not be discussed now because any settlement of it was impossible (*vide* Nanking office's despatch to Peiping Number L–632 Diplomatic, February 28, 1935 [29]). That the Chinese Government, in the face of the press, Party and Southwest storms about the "lost provinces", should admit the insolubility of the Manchurian question and be willing to ignore it in discussions with the Japanese concerning Sino-Japanese relations, tells its own story.

Along the same line was a Foreign Office denial, published by the Central News Agency at Nanking on April 9, of the United Press account of an interview which Mr. John R. Morris, United Press correspondent, had with Dr. Wang Ching-wei on April 1 at Nanking. According to Mr. Morris,

"While he (Dr. Wang) declared no Sino-Japanese *rapprochement* had been reached and added such a *rapprochement* in the sense of a complete understanding was unattainable while Japanese troops occupied Manchuria and Jehol, President Wang said he believed Japanese opposition had played no part in reducing the prospects of early international financial assistance."

This was evidently considered too strong a statement in public print and was emasculated by the Foreign Office spokesman, quoted by the Central News Agency eight days later:

"Mr. Morris asked whether relations between China and Japan had turned for the better. Mr. Wang replied that this was a fact. Mr. Morris asked whether a settlement had already been reached in respect of the problem of the Four Eastern Provinces. To this Mr. Wang replied that with regard to this question both China and Japan were still holding the views to which they each had hitherto maintained. Mr. Morris said that in that case the so-called turn for the better had not taken any concrete form. Mr. Wang said that in order to secure a turn for the better in Sino-Japanese relations steps must first be taken to adjust other questions. Mr. Morris asked whether Japan had objected to China's contracting for an international loan. Mr. Wang replied that the Japanese Government had not given any expression of that nature."

5. Whether the statement cited in my telegram of April 25, 12 noon, that the Chinese Government anticipates no further definite moves on the part of the Japanese until the conclusion of the Communist campaign may be taken as an indication that Mr. Hirota will not visit China in the near future, I should not venture to say. I do not think so. I think rather that the superfinal dilatoriness of the Japanese is a case of waiting, not only to give the Chinese Government a chance to meet their wishes, but of waiting also until General Chiang is phys-

[29] Not printed.

ically and mentally more accessible than he is in Chungking or flying between that place and Kweiyang and Yunnanfu. It has been considered strange by some observers that the Japanese should not press their case strenuously at this time while the Generalissimo's military organization is heavily engaged by the communist bandits. It has been argued that this cannot be kindness on the part of the Japanese and there have even circulated rumors that General Chiang has bargained with them to let him alone at this time. A sounder explanation, I believe, is that the Japanese entertain hopes that the Chinese will come to their point of view as regards Sino-Japanese cooperation and their apparent patience is designed to let the Chinese capitulate to their wishes without the appearance of coercion. It is possible, too, that the Japanese look to the clearsightedness of General Chiang Kai-shek in grasping the "realities", his actual leadership of the Government (with Madame Chiang Kai-shek), and the courage and decisiveness of character which he might be hoped to exhibit in the task if he decides to "cooperate" with them. It will be recalled that the first intimation at the end of January that the Japanese had made a new and far-reaching move in Far Eastern affairs was an account of a meeting with Shanghai bankers at which General Chiang Kai-shek proposed accepting financial assistance from Japan. The other arguments, however, should not be ignored completely. If it is at all true, as the Vice Minister was quoted as saying in the telegram under reference, that the present inaction of the Japanese is giving the National Government an opportunity to come to agreement with the Southwest, there is to be considered the fact that any change which may have occurred in the attitude of the Canton clique has occurred since the visit to Canton about the middle of March of General Doihara.

6. If the Japanese find it possible to persuade the Chinese Government, without public threat or overt action, to cooperate with them as they desire, the future of the present or any future Government working along those lines will depend in large measure upon the reaction of the people as fostered by the political enemies of those in power. It is doubtful whether the peasants and lower classes generally care to any great extent so long as their livelihood is not adversely affected and a growing spirit of something like patriotism, based upon a realization of the actualities, may in the end bring some of the most powerful non-Government figures into the Governmental fold. One of these is Mr. T. V. Soong and only last evening I was informed by a reliable American of standing who has known Mr. Soong well for several years and has seen him within the last few days that his opposition to the Government's policy of conciliation toward Japan which has kept him from again taking active part in the Government is disappearing.

There are many reasons why reasoning Chinese other than Government officials might incline to favor a program of cooperation with Japan if they could do so without stigma. If Japanese financial assistance could pull China from her present deplorable condition, if Japanese money could develop the North China cotton industry to a point where the Japanese would fill their needs from the Chinese crop instead of the American, if Chinese wool could replace Australian wool in the Japanese market, if Chinese spinning mills could operate profitably for Chinese investors with Japanese assistance, if various Chinese industries could be "rationalized" as Japanese industries have been and sell their products successfully in the world's markets, there would be reason to consider economic cooperation favorably. And many of these "ifs" could become realities.

With all their business genius, the Chinese have signally failed in many branches of trade. Outstanding examples are the loss of the onetime great tea trade; the conspicuous lack of success attending the greatest of Chinese shipping enterprises, the China Merchants Steamship Company; the adverse effects of dilution and other elements upon the trade in wood-oil; the recent auctioning in Shanghai of one of the mills of the Sung Sing Cotton Weaving and Spinning Company. The export trade in Tientsin and Peiping rugs is largely in foreign hands although there was no reason, in the days of good markets in the United States, why an efficient Chinese organization should not have been able to design and make and sell abroad as successfully. Sausage-casings, wool, hides and skin, straw braid, egg products and many other exports go abroad chiefly through foreign firms.

The reasons for Japanese success in industry, and particularly in producing certain cheap articles which successfully compete abroad with native articles are too numerous and complicated to warrant discussion here. One of the most important reasons why Chinese industries, if efficiently operated, often do not succeed is that, unlike the Japanese, they do not receive Government support either in the way of subsidies or of low taxes. As one Chinese informant remarked to me recently, there is no possibility that the industrialization of China will enable Chinese to compete in their own market with cheap articles imported from Japan because the Chinese Government will continue to "tax industry to death" in this country. The Chinese Government is chronically short of funds, a condition which may be expected to endure, and there is little hope that industries will ever have the encouragement of reduced taxes.

7. It is a temptation to speculate upon the future of the foreigner and his interests in China in case the Chinese mind should come to accept economic cooperation with Japan along the lines conceived by

the Japanese and whether out of such relationship between the two peoples the pan-Asia idea might not flower into something more than a utopian kind of concept in the minds of Oriental visionaries. But it is doubtful whether, if they attain their own way with China, the Japanese will develop the ability to restrain the manifestations of their own inferiority complex and accord the Chinese the friendly treatment as equals that would be necessary to win the Chinese to a real sense that their destinies are joined together.

Respectfully yours, GEORGE ATCHESON, JR.

793.94/6993

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

NANKING, April 30, 1935.
[Received June 1.]

SIR: I have the honor to report that in a conversation with me today Mr. Y. Suma, Japanese Consul General and First Secretary of Legation at Nanking, commented on the recent improvement in Sino-Japanese relations and on the possibility of foreign financial assistance to China (reference my telegram No. 88 of May 1, 12 noon, 1935, from Nanking.[30]) Mr. Suma is given to talking a great deal and the accuracy of his statements is not infrequently open to question, although he is always informative.

With regard to Sino-Japanese relations, Mr. Suma told me that representatives who attended the conference of Japanese consular officers at Shanghai in April reported that the conversations between Chinese and Japanese officials held early this year for the purpose of effecting closer "cooperation" between the two countries had resulted in a general improvement in their various consular districts in the attitude of the Chinese toward Japan. He said, however, that in certain places, such as the capital cities of Chekiang and Kiangsu Provinces, there was still considerable evidence of anti-Japanese activities. He added that such activities were no longer being instigated by officials, such initiative having been taken over by Chinese trade unions. According to Mr. Suma, the improved relations have resulted only in an increase of Sino-Japanese trade.

In speaking of the possibility of foreign financial assistance to the National Government, Mr. Suma said that he had asked the British Minister what Chinese official had approached him to suggest that the National Government would like to obtain a loan from Great Britain and that the British Minister had informed him that Mr. T. V. Soong, as a representative of the Finance Minister, Dr. H. H.

[30] *Post*, p. 577.

Kung, had done so. Mr. Suma expressed the opinion to me that such an approach could not be taken seriously, as it was not the proper channel for such a proposal, the proper channel being the Central Executive Committee through the Minister for Foreign Affairs. (I might suggest that this opinion is a rather strange one to come from Mr. Suma in view of the irregular approaches made with regard to Sino-Japanese matters to Chinese officials by Japanese who are not connected with the Japanese Ministry for Foreign Affairs.)

Mr. Suma then went on to say that Dr. H. H. Kung had approached him twice and Mr. T. V. Soong once to ask him whether Japan would be willing to lend money to the National Government but that he, Mr. Suma, had not regarded their inquiries seriously. He said that Dr. Kung had been rather vague in regard to the details of the loan desired, although in their second conversation Dr. Kung had said that the loan would be used for the improvement of Chinese railways, agriculture, and the like. Mr. Soong, on the other hand, had definitely said that China would like to borrow money for the purpose of reforming Chinese currency. Mr. Suma stated emphatically that Japan, believing that any loan at the present time along the lines of the Administrative Loan of 1912 [31] would be of no value, was not interested in direct financial assistance to China and that, as China was not under present conditions in a position to make currency reform effective, Japan was not interested in lending money for the purpose of attempting to reform Chinese currency.

Respectfully yours, NELSON TRUSLER JOHNSON

893.102S/1354 : Telegram

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

PEIPING, May 1, 1935—3 p. m.
[Received May 1—8 : 04 a. m.]

177. Department's 88, March 22, 8 p. m., regarding Shanghai defense scheme.

1. Cunningham reports that commander Fourth Marines states negotiations are proceeding and that commander believes that the final agreement on the wording of part 2, paragraph 4 will be brought into line with the Department's desires.

2. With regard to consular consultative representation on the Defense Committee Cunningham expresses the belief that the British Consul General would find difficulty in joining in such a proposal and that if the matter is handled by the Consuls General at Shanghai it will present many difficulties. He expresses the hope that the De-

[31] See *Foreign Relations*, 1912, pp. 112 ff.

partment may be able to make arrangements to handle the matter through other channels and "elsewhere than at Shanghai."

3. The Legation is requesting Cunningham to amplify the views expressed in paragraph 2 above. The Legation will report further when this information has been received.

For the Minister:
LOCKHART

793.94/6994

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

NANKING, May 1, 1935.
[Received June 1.]

SIR: It is worth while considering some of the factors involved in the current speculation regarding the future of Japan in Asia, particularly with reference to Japan's policy toward China and Chinese response to the policy.

Japan's foreign policy in recent years has been founded upon a search for a solution of the problem of her population. Settled upon a group of islands, only sixteen per centum of whose soil is capable of providing subsistence, Japan's population has already reached a point where the question of food is a pressing one. Her population is at the moment increasing at the rate of from eight hundred thousand to a million each year. This problem has for a considerable space of time been the chief preoccupation of the minds of the leaders of Japan, for it is imperative that means be found whereby her people may be fed.

It is not a characteristic of the people of Japan that they should give up and accept without a struggle this situation which fate and a limited environment have prepared for them. The Japanese have initiative, a flair for orderliness in their social organization and a deeply seated belief in their civilizing mission. They fought their way northward from the southern place of their ancient origins and they have the spirit to fight for their chance to live in the world in which they now have their national being.

It is true that there are times in the life of a Japanese when, thwarted on all sides, he will retire into himself and brood upon his fate, shutting himself off from his fellows. Such brooding may end in suicide, a violent admission of an individual's inability to find a way out, or a protest against conditions that he finds unbearable. But before setting out upon such a period of brooding the Japanese may be expected to use every means at his disposal to find the way out.

The Japanese people are now faced with what on the surface appear to be insolvable problems connected with the feeding of their rapidly

increasing population and it is clear that they are trying by every means to find the solutions that are imperative if their people are to live happily and fulfill the mission which they have persuaded themselves is theirs.

This population problem of Japan is essentially a modern one. It was not a pressing one during the period of seclusion, when the ordinary checks to population, famine, pestilence and infant mortality kept the population fairly stable. With the beginning of the Meiji era, however, in 1868, there came better conditions for the people, better government, better sanitation, better communications and better control of the conditions that permitted of famine. The checks are gone but the momentum of life continues at the old rate with the result mentioned.

It seems to me that birth control as a check to this life momentum is a subject of somewhat academic interest at the moment. It will be some time before any such methods could become sufficiently universal in use to have any appreciable effect. The fact is that generations are now coming into the world and growing to adulthood that must be fed. These are the generations that must cause the trouble.

Migration is out of the question. In the West where population pressure was earlier felt the white peoples took thought of the situation and marked out for themselves the areas into which they have been and are pouring their surplus peoples. The United States ceased to be a haven for the surplusage of Europe's population with the enactment of the immigration laws of 1924.[32] There is not a chance that the United States will open its doors to unlimited immigration from Asia. Nor will the colonies of the British Empire, which still offer a home to the peoples of Northern Europe, take kindly to a proposal that they open their doors to the people of Asia.

There is a current belief that Asia offers a home for the surplus population of Japan. This belief is based upon inadequate information regarding China's own population. There is reason to believe that China's population has been increasing at a rate not dissimilar to that of Japan. The evidence of this increase is found in the low standard of living everywhere visible and in the fact that the Chinese have been migrating outward all along the periphery of the country. Chinese settlers are moving northward into the Mongolian steppe lands at a rate variously estimated at from one to one and a half miles per year. This fact lies at the base of the constant difficulties between the Chinese Government and the nomadic Mongols. The nomad with his communal interest in the soil moves away from the neighborhood of the sedentary Chinese farmer who brings within him his peculiar attitude toward land and its cultivation. The same

[32] Immigration Act approved May 26, 1924; 43 Stat. 153.

pressure to a lesser degree is evident to the northwest into Turkestan and along the Tibetan marshes.

But the area best suited to the sedentary habits of the peasant Chinese farmer bent on finding a new home is found in Manchuria. For a long time the Manchus discouraged Chinese migration into the country which they considered the land of their origin, but from the time of the Russo-Japanese War on this ban was lifted. By 1909 Manchuria had a Chinese population of somewhere in the neighborhood of 10,000,000 and this Chinese population had increased to about 29 millions by 1931. It can be expected that with the better conditions that will prevail under Japanese rule in Manchuria the Chinese population will increase in the next ten years by a third if not by a half so that it is easy to see that there will be little if any room for Japanese to settle in Manchuria.

This assumes of course that the Japanese will care to go to Manchuria to settle as farmers. The Japanese have attempted and continue to try to settle their people as farmers in Manchuria, the latest scheme being to bring young farmers and their families over to settle them along the lines of the railways under obligation to act as guards for the railways in return for the assistance that the Government gives in placing them on the land. Experience thus far indicates that Japanese brought over tend to gravitate toward the cities where they can get the so called "high collar" jobs which they consider better suited to the dignity of a conquering and ruling people.

There is a mysterious incompatibility between the peoples of the two countries that I have never seen explained. The Chinese look down upon the Japanese as a people with little or no culture of their own and there is no doubt that the Japanese despise the Chinese. Intermarriage between the two peoples is almost unknown. This fact was brought out incidentally by a survey made of the population of Hawaii where Japanese, Koreans, Chinese, Portuguese, Filipinos, Kanakas, Russians and American whites live peaceably together. Here it was found that whereas Japanese and Kanakas and whites intermarried, there was no intermarriage as between Koreans and Japanese or as between Chinese and Japanese. The Japanese are more emotional than the Chinese, and have an innate sense of the artistic that the Chinese do not appear to have. The Chinese have and create artistically beautiful things, paintings, gardens, buildings, carved stone and wood and porcelains. But they are generally content to live in surroundings and in rooms that from an esthetic point of view are extremely uncomfortable. The Chinese surrounds himself with a wall and looks inward at himself and his belongings. He is an individualist and never so happy as when surrounded by confusion. The Japanese builds on high ground when he can and opens

his house to look outward. The two peoples are not happy in one another's company.

Formosa may be taken as the test tube in which the chemical composition resulting from Japanese and Chinese living together can be observed. In 1930, some thirty-six years after the Japanese had come into possession of the Island of Formosa, there were some 4,309,000 Chinese living in the Island as against 232,200 Japanese. At the end of 36 years the Japanese still look upon the Chinese in Formosa as a subject people. Some two thirds of the Japanese population are engaged in the business of government, employed as police, clerks, administrators, in the opium monopoly, salt monopoly and camphor monopoly. The remaining third are the hewers of wood and drawers of water for the first two thirds. They are the geisha, carpenters, merchants, et cetera who make living possible for the governing Japanese population who live as Japanese, in Japanese dress, in Japanese houses, eating Japanese food and talking Japanese. The Chinese population lives in the river valleys carrying on their peculiar rice culture brought with them from Fukien three hundred years ago, resides in cities in Chinese houses, wearing Chinese clothes, worshipping at Chinese Buddhist temples, eating Chinese food and talking Chinese, generally looking to China as their cultural center just as the Japanese look to Japan. The Japanese have two sets of schools, the one for Japanese and the other for their Chinese subjects.

Some years ago I went over a series of the textbooks prepared for use in the primary schools for Chinese in Formosa and noted with interest that little or no effort was being made to accomplish the impossible task of making the younger Chinese feel that they were co-heritors with the Japanese in the divine heritage of Amaterasu, the Sun Goddess ancestor of the Japanese. The Japanese military service law apparently does not apply to the subject Chinese population, the armies being kept purely Japanese. The Japanese with whom I made a three day trip into the hills was being let out of the Government after seventeen years of employment and was going back to Japan. When I asked him why he did not find work for himself in Formosa, where he had spent the better part of his life and where he was therefore specially equipped to render valuable service to his Government and his people, he stated that the Government did not encourage such a thing. He said that it would be harmful to the prestige of the Japanese for those who had been in Government service and in uniform (all civil servants wear a uniform and are greeted with respect by the people who take off their hats in their presence) to seek employment outside of Government in business either with the Chinese or in agriculture.

On the journey that we took into the hills we passed by a very elaborate scheme for irrigating and reclaiming arid land. By chance I met the Japanese gentleman who was in charge of the enterprise and he told me that they had fifty thousand acres of land ready to be irrigated and put under cultivation. In reply to my questions he stated that he did not propose to bring down Japanese farmers because they could not compete with the Chinese farmers settled in the river valleys, nor could the Japanese farmers use machinery with any degree of efficiency. He stated that they were settling Chinese farmers on the newly reclaimed land. In other words they were bringing in cheap Chinese peasant labor to raise the rice that the company hoped to produce on its new land.

Japanese officials scattered through the country as police and petty administrators among the Chinese population were as lonely in their work as any American might be whose lot it was to administer some small area among the Filipinos. One cannot come into contact with such facts of Sino-Japanese cooperation without wondering as to its end.

It has been my observation that similar conditions exist in Korea and now in Manchuria where the Japanese have gone in as conquerors and rulers despising the people they govern.

When one considers such facts as these one loses interest in the ancient bogey of the Yellow Peril which used to be described as a mass movement of the yellow peoples led by the Japanese to the conquest of the West. Even the conquering Mongol was unable to recruit his forces from China for the purpose of holding the empire established with Mongol hordes. One wonders anew as to the exact nature of the part that Japan is to play in Asia pressed as she is to find solutions for the problems that her increasing population makes so imperative.

Migration for her people is out of the question. Shut in on all sides and forced to take care of her people at home, she has therefore been obliged to adopt a policy of industrialization, that is, to put her people to work at home to produce goods which can be sold abroad for the money necessary to buy the food and the comforts needed to keep them alive and happy.

The needs of Japan have gone far beyond the mere manufacture of the things that were peculiar to her culture in such surplus as to have stock available for sale abroad. Silk, one of the natural products of Japan heretofore capable of supporting approximately twelve million of Japan's population, can no longer be relied upon in the face of the competition that is offered by rayon, a product of machine industry having practically all of the qualities of silk.

Japan's modern industries began in an effort of enterprising manufacturers, aided by a paternal Government, to copy goods which were coming into the country from abroad. It was not long before Japanese factories, well organized and well distributed, were capable of making a wide variety of products which they were prepared to offer in foreign markets at prices which the products of foreign labor could not meet in their own domestic fields. In the special field of textiles the Japanese have had a long and fine experience. This experience they have naturally turned to excellent use in the development of improved looms and in the production of cotton and silk textiles which are being shipped to Europe and to America at prices that the European and American textile manufacturers cannot hope to meet.

The reaction of the West to this effort of the Japanese to find an outlet for the productive effort of their people has been a natural one, although it is perhaps open to the charge that it results only in denying to the consumer his right to purchase his needs in the cheapest market. The West is erecting barriers against the cheaper Japanese merchandise by higher tariffs or by quotas in an effort to raise the price of Japanese goods to western consumers up to the level of prices which it is necessary to charge for western domestically made products if western labor is to be maintained at the standard of wage and living to which it has been brought by a long period of care. Japanese industry has injected into the field of international trade a new element. It is no longer a competition of national skills but a competition in standards of living, costs of labor and management, a competition in which the Japanese with his simpler needs is better fitted to survive.

There seems to be no other way for the western world, with its high living standards and high labor costs, to meet the threat that Japanese industry presents than to shut out of its markets the cheaper products of Japanese industry. The end is of course clear. Unable to send their surplus population abroad and having the products of their stay-at-home population thrown back upon them, the Japanese must turn back to Asia to seek the solution to their problem. As a Chinese leader put it the other day, "If you throw their goods back on them then we must receive their thrust, and we are in no position to resist."

There seems to be no doubt that Japan's policy toward China has been adopted as a means of meeting the problem that curses her. In the carrying out of this policy she wavers between the more positive plans of the military group that has always feared the awakening of China and of Russia, and the more negative plans of the liberal, urbanized, industrial leaders who have at times directed Japanese political development and foreign policy since the Restoration.

The military leaders, influenced by the plight of Japan's rural population from which the bulk of the soldiers are recruited, have ap-

parently hoped by forceful means to place Japan's military boundary far enough away from the geographical boundaries of Japan proper to meet any threat of Russia before it could reach Japanese soil. They have also hoped to find in Asia an outlet for Japan's hard pressed population and at the same time so to control political developments in China as to rob them of any threat to Japan. The military boundary has duly been placed at the Hingan Mountains and doubtless Japanese military leaders sleep the more quietly for this fact.

But Manchuria and China as an outlet for Japan's population have proved and will continue to prove of no value. The constantly increasing millions of Chinese that inhabit Manchuria must absorb most of the profit of whatever Japan can put into that country.

The military who were responsible for the Japanese adventure in Manchuria doubtless believed that they could build up in Manchuria a market for Japanese goods that would justify in the eyes of the urban industrialists the expense of their adventure. But the necessity for local industries to raise living standards and the presence of cheap labor to make such local industries possible indicate another trend.

Another factor making for disillusionment of the Japanese is to be found in the dawning realization of the truth that Manchuria does not contain much in the shape of raw material, metallic or mineral, to meet the necessities of Japanese industry, for it was hoped that in Manchuria Japan might find freedom from her enslavement to the raw material of western markets.

And thus it is that at the moment the Japanese military group, the party of force in Japanese foreign policy, perhaps partially disillusioned for the time being and confining its chief efforts at least temporarily to Manchuria, has given to the more liberal element, represented by a part of the Foreign Office and Japanese industry, an opportunity to try out a less forceful policy. Economic cooperation between China and Japan is the talk and high hopes are held of a profitable arrangement between the two countries whereby Japan will be able to find a greater market for her goods in China and at the same time find in China the raw materials, produced at low cost, that are so necessary. Coal, iron, oil, raw cotton and wool are the materials of greatest need and the search is now on to find these things in China. For these Japan is prepared to pay in the form of goods made in Japanese factories.

Europe and America will be quite content if the two countries can work out some mutually satisfactory arrangement of this kind which will relieve western markets of the pressure of Japanese competition. But the question arises is such economic cooperation possible. Can Japan find in China the solution for the problems that are pressing so hard upon her?

It has become increasingly evident in recent years that China, and this includes Manchuria, does not possess the reserves of iron, coal, oil and other mineral resources that it was customary twenty years ago to credit her with. There is plenty of coal but much of it is so inaccessible to the sea that anyone undertaking to extract it must go to considerable expense before it can be got to the place where it can be used. China's iron is scattered and does not occur in quantities sufficiently large to make it of much importance when the world situation is considered. Iron can be produced much more cheaply and in greater quantities in India. Such evidences of oil as have been found do not give promise of sufficient quantities to justify the expense of the pipe lines necessary to fetch it to tide water. There is little or no gold produced in the country and no silver to amount to anything. The two metals that are known to exist in China in valuable quantities are antimony and wolfram both of which are useful in the war industries. But in the heavier and more generally important minerals there is little promise of sufficient supplies for an important degree of industrialization over a long period of time.

There remains the question of raw materials that can be produced in the fields and cheap labor that China can furnish in abundance.

The chief raw material of value to the Japanese is of course cotton, followed by wool. There can be no doubt that in the matter of cotton for the textile industries of Japan much should be possible in China, for the cheap field labor is here as well as the soil. It should be neither difficult nor expensive to raise materially the quality and quantity of the cotton grown in China. The chief thing to consider in this connection is the problem of food for the labor used in the growing of the cotton.

As a corollary to the purchase of such raw materials from China there goes the matter of China as a market for the products of Japan. The first requisite in this connection is to build up in China a market friendly to the goods of Japan. There has existed since 1915 a smoldering hostility to Japan and Japanese goods that flames in the form of a boycott every now and then. In recent years the activities of the Japanese in China and particularly in Manchuria and Shanghai have added much fuel to this anti-Japanese fire. It has done tremendous damage to Japanese trade and industry and has caused great losses to Japan. One of the first requisites to a peaceful settlement of difficulties between Japan and China must be the wiping out of the boycott activities that have characterized this anti-Japanese feeling.

There is no doubt that in recent years this feeling against Japan and Japanese goods has been fostered and abetted by agencies of the Chinese Government and the Kuomintang which have used it for the purpose of fanning a national feeling among the people in the schools

and in lectures by political leaders. In this connection it must be noted that the activities and pronouncements of Chinese leaders and patriots have been anti-foreign as well as anti-Japanese, for they have used all manner of arguments against the old treaty Powers for the purpose of inculcating national feeling in the rising generations now in school. But the feeling against the Japanese has been intensified by the activities of the Japanese themselves. As a nation they have been singled out for special attention with consequent adverse results to Japanese trade.

One aspect of this whole anti-foreign situation has been the encouragement that it has given to the development of Chinese industries. "Buy Chinese goods" has become a general slogan and Chinese industry, following the line taken by Japanese industry in its infant stages, has been making amazing strides in recent years in its ability to produce usable substitutes for many of the products hitherto brought in from abroad. Bazaars for the sale of Chinese made goods are found in all of the large towns. Itinerant sellers of small wares of Chinese manufacture are to be found throughout the countryside. It is a surprising experience to visit such a bazaar for the sale of Chinese goods and there note the wide variety that is offered for sale, modern porcelain dishes and household fittings, textiles of cotton, silk, rayon, and wool, cosmetics, glassware for chemistry and the table, toys, steam and internal combustion engines and so on. Efforts are being made by the Government to encourage the development of such industries through subsidies and bounties and tariffs.

It is possible and probable that the anti-Japanese attitude now prevalent in China may be significantly altered. Certainly the Chinese Government reacting to the pressure of the Japanese is doing what it can to discourage it. But Japanese made products come more and more into competition with products now made in Chinese factories which are acquiring skill as time goes on. For the moment there is an advantage enjoyed by the Japanese product because it is made in a factory better and more economically run. But the interesting question is, will increased skill and experience and the cheaper labor of the Chinese overcome this advantage. Of course a more enlightened attitude in the matter of taxation must govern the financial policy of the Chinese Government; otherwise the Chinese manufacturer will fail under the intolerable burden of uncertain taxes.

The question of silver enters into the picture very definitely for silver is the metallic basis of all Chinese business transactions. The future of silver offers an uncertain factor in this whole field. At present it is rising in cost, in terms of gold, the nominal basis for currency in the West and in Japan. And this rise in the price of

silver increases the price of all commodities, including labor, used in extraterritorial factories located in China and at the same time lowers the price of goods manufactured in gold-using countries when those goods are presented for sale to Chinese consumers.

China is a cheap market for foreign goods. Eighty or more per cent of the population are peasant farmers with a very small individual budget out of which to make expenditures for foreign made goods. It is doubtful whether the standard of living of large sections of the people of China will ever be raised much above its present level. In China there is reason to feel that the present dead level must maintain because the population is increasing so rapidly that there is little incentive or possibility of the general run of people living much above the standard now reached, not only because of the expense but also because of the lack of enough to go around.

Something has been said of the development of industries in China intended to supply the demand in China for certain types of goods hitherto manufactured entirely in foreign countries. It is possible that through the development of such industries the standard of living among a large number of the people may be raised considerably. But it is to be remembered that these infant industries of China parallel the industrial development in Japan and it is hardly possible for Japan to find a market for parallel products in China except at the expense of Chinese industry. Japan will seek such an advantage either by forcing China to lower the tariff on Japanese products or by smuggling or otherwise evading Chinese taxes. The result can only be disastrous to Chinese industrial development and a further handicap to any increase in the living standards of a people forced to concentrate upon the production of food, cotton, wool, and other products of agriculture. The picture presented is of China with a large and increasing population engaged almost exclusively in agriculture, being supplied with consumer's goods made almost entirely in Japanese factories. Such a market must always remain a cheap market, and because of the ever increasing number of people to be fed it is possible that as a market it will grow cheaper and cheaper rather than the other way. I frankly question whether such a situation offers any solution, except a partial one, to the problem of Japan's own population. Economically such a solution does not appear to be a sound one for it will mean that Japan is doomed to the role that Spain played in her colonies without the compensation that Spain received for a long time in the form of newly mined gold and silver from areas under her control.

In order to maintain China as a kept market for Japanese made products Japan will have to furnish the police force necessary to preserve the order that must characterize such a market. As is already

the case in Formosa, Korea, and Manchuria, the Japanese will seek the so-called high collar jobs for the maintenance of her prestige among a subject people and the time will come when the whole economic system will topple of its own weight as it did with Spain.

It seems to me very evident that it is more than likely that this role of the "high collar job" will be extended from the ordinary functions of government to the management of factories; that the Japanese will have difficulty in preventing the establishment of factories in China near to the source of the raw materials and able to take advantage of the inexhaustible supply of the cheapest of intelligent and industrious labor. Here will lie a factor of great difficulty for the domestic industry of Japan.

Herein also is to be found the real Yellow Peril. For it will be very difficult for the countries of the West to continue to deny their people access to the cheap products of cheap Oriental labor under the efficient management of the Japanese.

Respectfully yours, NELSON TRUSLER JOHNSON

893.102S/1355 : Telegram

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

PEIPING, May 2, 1935—4 p. m.
[Received May 2— 6 : 55 a. m.]

179. Legation's 177, May 1, 3 p. m., second and third paragraphs.

Cunningham reports that he has discussed the matter with the Minister and proposes to attempt to arrange for the inclusion of equal rights.

For the Minister:
LOCKHART

500.C001/1109

The Consul at Geneva (Gilbert) to the Secretary of State

No. 1252 Political GENEVA, May 2, 1935.
[Received May 10.]

SIR: I have the honor to enclose copies of two documents [33] drawn up by the Legal Section of the Secretariat to serve as a guide to the Secretary-General in matters having a relation to the definitive withdrawal of Japan from the League of Nations which became effective on March 27. These documents being intended solely for the internal use

[33] Neither printed.

of the Secretariat were handed to me in confidence. The first, which is undated, deals with the position of Japan in relation to the Pacific islands under her mandate, and the second, dated March 8, contains a discussion of the representation of non-member states and their nationals on League committees.

1. The document relating to the Japanese mandate can in no sense be considered a legal exposé. It is merely an enumeration couched in the briefest possible terms of the chief facts underlying the legal status of the mandate. All discussion of controversial points of law, except by implication, is omitted. The question of whether League membership is a necessary qualification for the position of mandatory is disposed of by stating that the organs of the League have not examined this question. The only statement in the document which draws a legal conclusion is contained in the final sentence, that "the rights and obligations involved in the position of mandatory are defined in the charter of the mandate, which cannot be modified unilaterally". This conclusion is not defended. It is merely stated. As pointed out in the Consulate's despatch No. 668 Political of September 8, 1933,[34] the principle asserted in this sentence constitutes the chief argument of those who consider that the withdrawal of Japan from the League does not in itself affect in any way the right of Japan to continue to exercise the mandate.

In this connection, I may add that the question of the relationship of Japan's withdrawal from the League to her position as mandatory has not been raised in the Council nor in the Mandates Commission and, according to present indications, there appears to be no likelihood that it will be raised as long as Japan continues to cooperate with the Mandates Commission and in the absence of conclusive evidence that Japan is not fulfilling the terms of the mandate charter. There is another important question relative to the mandate which likewise has not been raised, namely, the manner of conducting the relationships of Japan with the League Council should any controversial issue in regard to the mandate be brought before the Council, which would require that explanations be given to the latter by the mandatory power.

As explained in the Consulate's despatch No. 1084 Political of November 15, 1934,[34] some members of the Mandates Section of the Secretariat, although fully aware that the League would be powerless to deprive Japan of the mandate regardless of the possible validity of legal considerations adverse to her retention of it, felt that the Council should take official cognizance of a change in the legal situa-

[34] Not printed.

tion of the mandate consequent on Japan's withdrawal and, though confirming the retention of the mandate, should take some action to safeguard the mandate principle. It was contemplated that this might be done through a sort of novation which would confirm Japan's rights and obligations as mandatory and at the same time re-assert the authority of the Council. This course was for some time given serious consideration in the Secretariat, but was eventually abandoned, presumably because it did not meet the approval of the great powers. In more recent conversations with a member of the Mandates Section who formerly advocated that procedure, he expressed the opinion that after all it was perhaps better that this was not done. Such a procedure would have constituted a direct confirmation of the legal theory that a state on withdrawing from the League has the right to retain a mandate and might also by implication cause the Council to commit itself in regard to other legal questions relating to mandates which are now in abeyance. A precedent would thus have been created which might hamper the action of the League in some future case when in different circumstances the League might desire and might be in a position to enforce the relinquishment of a mandate by a withdrawing state. In allowing the matter of the Japanese mandate to continue as if nothing had happened, it is true that there is the implication that Japan has the right to retain the mandate, but not necessarily an unqualified right. The ultimate authority of the Council to deprive a state of a mandate as well as other important controversial legal issues are thus left entirely open for the future.

2. The second memorandum discusses in particular the question of the participation in League committees of nationals of states which have withdrawn from the League. For the objects of this discussion committees are divided into two classes: (1) those composed of representatives of states; and (2) those composed of members personally appointed.

The second category seems to require no comment. In regard to the first category, it will be noted that the conclusion is drawn that for a state which has withdrawn from the League to continue to be represented on such committees, a renewal of the appointment of the state to the committee must be made by the competent League organ. In respect of Japan, the first application of this principle arose on April 25 at the first meeting of the current session of the Advisory Commission for the Protection and Welfare of Children and Young People. During the course of the meeting the chairman expressed the regret that the withdrawal of Japan from the League would deprive the Commission of the valuable collaboration of the Japanese member. On the proposal of one of the representatives the Commission gave

unanimous expression to the desire that the League Council invite the Japanese Government to continue its collaboration in the future. The Commission then decided to invite Mr. Yokoyama, the Japanese Consul General at Geneva, to be present at the current session in an advisory capacity.

Presumably a similar procedure will be followed by the Opium Advisory Committee at its meeting in May,[36] since this committee falls within the same category as the one discussed above. Incidentally, this memorandum makes no mention of the reservation to which the Japanese Government has stated it would make subject its ratification of the 1931 Narcotics Limitation Convention,[37] a matter which I have discussed in several communications to the Department, notably in Despatch No. 947 Political of June 21, 1934.[38] It would appear that legally the Japanese reservation will not affect the principles laid down in this document, but probably in practice the application of those principles will be affected thereby.

Respectfully yours, PRENTISS B. GILBERT

893.515/556 : Telegram

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

SHANGHAI, May 3, 1935—4 p. m.
[Received 6 p. m.]

214. In an unsigned article entitled "An American Economic Mission" appearing in the May issue of *Oriental Affairs*, a Shanghai-British monthly, edited by Woodhead (British), compiler *China Year Book*, it is stated

"It would be well, however, if the American public could be made to understand that, under the guise of friendship for China interested politicians have contrived to strike this country a far deadlier and more dangerous blow than was struck by the Japanese forces, either in Manchuria or in Shanghai. As the Chairman of the Hong Kong and Shanghai bank so forcefully put it, America's silver policy 'has been of benefit to an insignificant number of persons to a not very convincing extent, while it has been the cause of a serious dislocation which may yet prove disastrous in a country containing one quarter of the world's population'."

Repeated to the Legation.

CUNNINGHAM

---

[36] See vol. I, pp. 447 ff.
[37] For text of convention, see *Foreign Relations*, 1931, vol. I, p. 675.
[38] Not printed.

894.00/544

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

No. 1279 TOKYO, May 3, 1935.
[Received May 18.]

SIR: I have the honor to submit the following analysis in amplification of my despatch No. 1255 of April 20, 1935, on the subject of the alleged strengthening of the liberal element in Japan. It will be recalled that that despatch reported a conversation with Foreign Minister Hirota in which he stated that the absence of any reactionary outburst to his recent announcement of no war while he is in office is a result of the common knowledge that he was directly expressing the views of the Emperor; that Mr. Hirota asserted that the democratic influence in the country is steadily growing in strength; and that, in spite of the Embassy's inability to confirm the Foreign Minister's stated conviction, an analysis of the situation would be attempted in due course.

A treatment of this subject which suggests itself is to consider the three questions (1) is Japanese policy less inclined toward war? (2) is the military losing influence? and (3) is democratic strength growing?

The trend of events in Japan in recent months has been away from a policy of war. The purchase of the Soviet interest in the Chinese Eastern Railway was effected peaceably, and in the press aftermath of the successful negotiations a tone of moderation and quiet in the relations of Japan and Russia has contrasted conspicuously with the inflaming tactics previously employed. Barga border incidents have been handled cautiously, penetration in Chahar has advanced without bluster, and in north and south China an improved Japanese position is sought by means of economic and political understandings. As for publicity against the United States Navy, for some time (except for an outburst of the last few days) the newspapers have not played up antagonistic items. The tenor of the press is clearly on the side of the methods of peace.

Nor is there cause for believing that this new exterior hides an inner belligerent intention. So long as the chief objectives are brought appreciably closer without fighting, war is unnecessary. Japanese policy appears less inclined to war than it did a year ago, and this waning of the bellicose spirit seems more than merely superficial.

To find Japan desirous of avoiding war, however, is quite different from asserting that the military is losing influence. The evidence points to a continuing preeminence on the part of the military. Certainly the resignation of Prime Minister Saito and the succession of

Admiral Okada to his position, with the support of two uncompromising men in the present cabinet as ministers of war and of the navy, does not argue a movement toward civilian power. It should be remembered that the dominant military group, notably idealistic and convinced of its responsibility for the nation's destiny, thinks in terms of ambitious plans which comprise no less than the future of the Empire. With so extensive a self-assumed field of action, justification for its existence and importance is not lacking even under a warless program. While peaceful methods are the methods now employed, the change of tone need not mean that the guidance of affairs is passing from the military to the civilian, and facts to indicate such a shift are absent. Continuing direction by the military is, furthermore, favored by the constitution of Japan and the psychology of the people.

Mr. Hirota has apparently convinced those in power that he can reach the Government's objectives without war, at less cost. He is being given a try because the proposal has plausibility, not because the army is in eclipse. Under Mr. Hirota's administration there has been no abandonment of the gains of the previous aggressive regimes. There has been no retreat. Japan's foreign policy, in fact, maintains a strong arm under his guidance, in spite of his protestations of gentleness.

Whether a policy of peace will later lead to a decline in the influence of the military, which to regain its position might then turn in the direction of war, is a question for the future. The present despatch is concerned only with reporting existing conditions.

As for the specific question of whether democratic influences in Japan are increasing in strength, observers here would probably be unanimous in answering in the negative. Whatever the changes in political control, they have not thus far enhanced the powers of the people. The recent Diet was singularly outspoken, and a new tone adversely critical of the government and military was audible; but its efforts were strikingly ineffective. The Foreign Minister, however, probably had in mind a slightly different type of development when he spoke of the growing strength of the democratic elements, and to understand the statement a brief biographical digression is necessary.

Mr. Hirota is a native of Fukuoka, where he was born of a family of humble estate. As a young man he became a member of a patriotic society called the Kokuryu Kai, an organization which had its origin in Fukuoka at the time of the Russo-Japanese war of 1904–1905, under the leadership of Mitsuru Toyama and Ryuhei Uchida, both of whom have since become conspicuous public figures in the chauvinist movement. An aim of the society was Japanese expansion in Manchuria. Throughout his distinguished career Mr. Hirota has maintained his

792998—53——17

membership and still continues the habit of consulting the leaders of the organization. This relation now works both ways. When Mr. Hirota tells the Kokuryu Kai that Japan is not in danger and that rabidly chauvinistic tactics are not necessary, he is able through the confidence which he enjoys at the society's hands to restrain its activities. At the same time Mr. Hirota's weight in governmental matters is enormously increased through the support of this powerful society. This is a new situation in Japanese politics. For the first time, a foreign minister who is not a soldier is nevertheless in a powerful position, having the organized backing of a strong civilian society. This is in fact an innovation which should not be ignored, although Mr. Hirota's reference to it as a growth in democratic trend is far from exact from an American point of view. Mr. Hirota's relation to the Kokuryu Kai also helps explain his other remarks about refusing the invitation of a political party which is in search of a popular leader. Like other Japanese patriotic societies, the Kokuryu Kai probably has very little faith in the political parties, and Mr. Hirota very likely does not envisage his future political career in such terms. He has been singularly successful in obtaining general confidence, and it would be strange if the frequently-suggested idea of his becoming the nation's next prime minister were repugnant to him. His conversational remarks indicate that his judgment is against party politics as the course to this goal, and in this decision the present state of affairs in Japan bears out his shrewdness.

It is worthy of note that Mr. Hirota is fully conscious of the unique position in which he finds himself as a result of his membership in the Kokuryu Kai. In private conversation with me shortly after he assumed office, he discussed the fact with frankness and stated that in his opinion the support of the Kokuryu Kai would prove a factor of considerable weight in increasing his political importance. He realizes that his unusual backing is a strong lever in dealing with his colleagues in and out of the government. The months that he has been in office have produced many instances to show that his expectation in this respect, as stated in his conversation with me, was justified.

Mr. Hirota's influence increases rather than decreases. He has publicly announced that there will be no war while he is in office, and no outburst followed this announcement. But at the same time the military group is not shelved. Many Japanese leaders no doubt now realize in retrospect that the country's difficulties since 1931 have been multiplied by an unnecessary overriding of treaties. If a more restrained policy allows scope for Japanese interests without the costs of the last four years, the military party is sufficiently opportunist to give it a trial. It may well be that a tempering of the methods of

Japan's foreign policy, without significant change in its aims, is what lies ahead.

It would seem unwise to predicate American policy in the Far East on the hope of democratic developments in this country. The military should be kept in mind as still the strongest single element in Japanese affairs. But the fact that the leaders are persons of military training is incidental only. They are not primarily soldiers but are strong nationalists who, in a country in which the army is a popular institution which offers a career to talent, happen to have been trained as soldiers. They have no aversion to making use of non-military men such as Mr. Hirota when there is coincidence of nationalistic aim and reasonable promise of success.

Respectfully yours, JOSEPH C. GREW

893.01 Manchuria/1257

The Consul General at Mukden (Ballantine) to the Minister in China (Johnson)[39]

No. 91 MUKDEN, May 3, 1935.

SIR: I have the honor to refer to the general subject of "Manchukuo's" unique international status and in that connection to report briefly concerning a series of interviews had within the past week with leading Japanese and Japanese "Manchukuo" officials in Manchuria by Mr. Denzil Clarke, former British Vice Consul at Mukden, who recently retired from the British foreign service and is now engaged in personal studies of Far Eastern affairs. Among those interviewed by Mr. Clarke were: General Jiro Minami, Commander in Chief of the Kwantung Army and Japanese Ambassador to "Manchukuo"; Major General Kenji Doihara, head of the Japanese Special Mission at Mukden; K. Moriya and M. Tani, Counsellors of the Japanese Embassy at Hsinking; and C. Ohashi, Vice Minister of Foreign Affairs of the "Manchukuo" Government. The information recorded and conclusions drawn by Mr. Clarke from the interviews are in close accord with my own observations gained from recent conversations with Japanese officials, and, in view of his reputation as a careful student of Manchurian problems, are believed to be of considerable interest.

Mr. Clarke's discussions in general centered on aspects of the recognition, or rather non-recognition, question, and the future possibilities of foreign business enterprise in Manchuria. The outstanding features of present Japanese psychology indicated by the interviews were: a

[39] Copy transmitted to the Department by the Consul General at Mukden in his unnumbered despatch of May 3; received June 4.

pessimistic conviction that, despite the recent Japanese overtures to China, prospects of recognition by that country remain as remote as ever, due to the, allegedly, obstructive influence of Britain and the United States; frank abandonment of the pretense of Chinese ministerial authority in the "Manchukuo" Government and resort instead to rationalization of the Government's anomalies on the basis of temporary expediency; and a very determined hostility to active participation of foreign firms in Manchurian commercial enterprise.

In connection with the recognition question, General Doihara, with apparent frankness, informed Mr. Clarke that his principal mission on his recent tour of China had been to acquaint Chinese leaders of all factions with the soundness and advantages of "Manchukuo" and to endeavor to persuade them of the wisdom of according *de jure* recognition. He had found some Chinese receptive to his appeals, but many had failed to respond. For the present he saw no possibility of recognition by China and felt there was little use worrying over the matter. Other officials interviewed showed even clearer evidence of disappointment in the results of the recent overtures to China. General Minami, as well as Vice Minister Ohashi and Counsellors Tani and Moriya, volunteered the opinion that China's obdurate stand on the recognition issue was due to the unwillingness of Britain and America to give the necessary "lead", without which China would never act, and the General further expressed himself as strongly opposed to the present "Anglo-American cooperation in the Far East which seeks to exclude Japan from the sphere of its activities", as an element full of danger to the peace of the world. Mr. Clarke found officials at Hsinking apparently more concerned over non-recognition than Tokyo Government circles, and Mr. Ohashi in particular, who has always championed "Manchukuo" with justifiably paternal fervor, appeared to consider the foreign powers' failure to recognize "realities" as almost a personal affront to his dignity.

In relation to the subject of recognition, the foreign powers' distrust of the "artificiality" of the "Manchukuo" Government was discussed at considerable length with Mr. Ohashi and Mr. Tani. They both frankly admitted in effect that the Chinese who have been occupying the chairs of Ministers are nothing but ineffectual figureheads—due, they allege to the unavailability of capable Chinese for posts of high authority—who must nevertheless be maintained as a face-saving concession to Chinese sensibilities.* They appeared exasperated that western nations, apparently unable to appreciate the necessity for this deference to oriental psychology, should obstinately continue to regard such a recourse as a Japanese deception clumsily calculated to convince

*In this connection reference is made to the Consulate General's despatch No. 39 of January 18, 1935, entitled, "Administrative Machinery in Manchuria". [Footnote in the original; despatch not printed.]

the world of "Manchukuo's" independent status rather than in its true light as a temporary expedient which, in pursuance of Japan's undertaken policy of "enlightened despotism," must be employed until trained Chinese become available for high positions. Mr. Ohashi said that an order had recently gone out restricting the further appointment of Japanese as "Manchukuo" officials, that it was his Government's permanent policy to train Japanese and Chinese indiscriminately for future employment, and that exhaustive efforts were being made to discover and develop Chinese talent. Both he and Mr. Tani professedly foresaw a time—admittedly after many years—when the population of the country would become so homogeneous that racial distinctions would be forgotten and officials selected without thought of racial origin. From these and general impressions gained in all his interviews, Mr. Clarke feels justified in the belief that intelligent Japanese have in general abandoned the practice of insulting foreigners' intelligence with the fiction of "Manchukuo" independence and fallen back upon the doctrine of simple expedience, according to oriental standards, which, it is evidently felt with all sincerity, the Powers have no right to condemn. (Without necessarily questioning the sincerity with which Japanese idealists have advanced the theories set forth in this paragraph, it should be pointed out that Japanese have not in any of the countries to which they have immigrated in considerable numbers shown the slightest tendency to assimilate themselves in any degree with native populations).

Referring to the "Manchukuo" Government's original statement to foreign nations regarding obligations under China's treaties, Mr. Ohashi said that as the statement had been made unilaterally it could, he presumed, be canceled unilaterally. He also propounded the theory that the Nine Power Treaty, like the Washington Treaties, are now obsolete because, since their ratification, Soviet Russia has become a great power, thereby completely altering conditions; that any treaty becomes inoperative if conditions affecting it are changed and one party does not agree to revision or cancelation.

In respect to foreign business enterprise in Manchuria, Mr. Clarke was much struck with the evidence which his interviews disclosed of the intense hostility existing in Japanese official and business circles to foreign participation in the country's economic activities. In interesting contrast to the reassuring tone of statements anent the "Open Door" and equal opportunity which used to be given publicity two years and even a year ago—none of the officials made any attempt to conceal the fact that further foreign commercial enterprise in Manchuria is not welcome and that even the continued presence of foreign commercial representatives still in the country is jealously resented. Mr. Tani referred to the unique case of a contract for construction of a

government building in Hsinking recently given to a French firm as an experiment made at financial sacrifice for international considerations which had proved too costly and impracticable to warrant repetition. It was clearly the consensus of opinion of those interviewed that, in the face of intense inter-Japanese competition and existing economic policies, foreign enterprise must be confined to supplying, within the limitations imposed by Japan-"Manchukuo" bloc economy, such commodities as can not be supplied by Japanese firms, and that, moreover, to maintain the sales of such products, foreign firms will as a rule be faced with the necessity of withdrawing their own selling agencies from Manchuria and marketing the goods through the well qualified distributing systems of large Japanese firms. (In the latter connection, it may be observed that the desired exclusion of foreign selling agents, as distinguished from the exclusion of foreign products, is quite in keeping with Japan's traditional aversion to permitting retention of any degree of management of her trade in foreign hands and with her present practice whereby, for example, Japanese silk is marketed in New York and American cotton purchased in cotton producing centers through Japanese firms exclusively.)

Mr. Clarke noted indications, however, that the authorities, in the carrying out of economic policies, are anxious to avoid infliction of drastic shocks to existing arrangements such as that occasioned by the ill-conceived oil monopoly. Apparently, while further "regulations" in respect to the sale of certain commodities are to be anticipated, no new monopolies are contemplated, at least for the present. General Minami himself stated that foreign interests need have no apprehension regarding establishment of other monopolies, since none are being even considered, and that he had advised the "Manchukuo" Government to proceed most cautiously with any "reforms" that might affect the sale of commodities. Speaking in the same connection, General Doihara informed Mr. Clarke that foreign firms would do well to keep in close touch with Hsinking's plans for further economic reforms and endeavor to reach prior understandings with the authorities in order to eliminate the risk of later friction as far as possible.

Respectfully yours, JOSEPH W. BALLANTINE

661.9331/23 : Telegram

The Second Secretary of Legation in China (Atcheson) to the Secretary of State

NANKING, May 4, 1935—3 p. m.
[Received May 4—11:41 a. m.]

95. Nanking office understands that Soviet Ambassador recently returned to China from Moscow will next week begin discussions with

Chinese Foreign Office looking to new commercial and possibly a non-aggression treaty with China.

ATCHESON

792.94/13

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

No. 1281 TOKYO, May 4, 1935.
[Received May 18.]

SIR: There have been numerous indications during the past year that Japan and Siam are gradually arriving at some kind of *rapprochement*, not only cultural and economic but also political in character.*

M. Phra Mitrakarm Raksha, the present Siamese Minister to Japan, has been consistent in his efforts to cultivate closer and more cordial relations between the two countries ever since his arrival here in June, 1934. It was even reported by the Tokyo *Asahi* of January 5 that one of his Government's motives was its desire to reform Siamese politics and "to rid the country of Western influence" by means of close cooperation with Japan.† Whether or not there is any truth in the allegation of the Tokyo *Asahi*, it is certainly true that Siamese-Japanese relations are at present on a noticeably more cordial and sympathetic plane than they have been for some years past. In this connection a Secretary of the French Embassy yesterday informed a member of my staff confidentially that in reporting to his Government on the increasingly close relations between Japan and Siam the French Ambassador had described the relations which existed between the two countries only a short time ago as "dead" (". . . qu'il y a peu de temps encore . . . les relations qu'entretenait les deux pays étaient mortes pour ainsi dire et qu'elles ne révélaient du moins aucune envie de rapprochement ni même de cordialité réciproque"). Monsieur Pila represented his country in Siam from 1920 to 1925 and during his incumbency here he has kept in close touch with the affairs of that country through the French Legation at Bangkok and in other ways.

According to recent newspaper reports, some of which are corroborated by my French colleague and most of which are believed to be reliable, the following developments have taken place: in accordance with an arrangement concluded between the two Governments, in February of this year a group of twenty Siamese naval officers and cadets came to Japan to study navigation and seamanship and were

---

* Embassy's telegram No. 92, April 26, 1935, and Monthly Political Report for September, 1934, Section II (*g*). [Footnote in the original; telegram and report not printed.]

† See Monthly Report for January, 1935, Section II (*e*). [Footnote in the original; report not printed.]

assigned to various Japanese merchant vessels on board which they will serve until the end of June, 1935; the number of Siamese students in Japan is increasing at the instance of the Siamese Government; steps are being taken toward the introduction in Siam of Japanese medical methods; the Japanese Navy is planning to carry out a good will airplane flight to Bangkok; the Japanese Government is contemplating the inauguration of an air route between Tokyo and Bangkok; in a desire to renovate administrative methods in the new constitutional Siam, the Siamese Government has decided to send a delegation to Japan for the purpose of studying the application of the constitutional system in this country; in March, 1935, Siamese officials accorded an elaborate welcome to the Japanese Training Squadron which consisted of 174 naval cadets, including three Imperial Princes; a group of eleven Siamese army officers came to Japan in January, last, to remain for several years for the study of Japanese military science; Colonel Phya Bahol, President of the Siamese Council of Ministers, recently granted an interview to a correspondent of the *Osaka Mainichi* in which he was reported to have stated that Siam was turning its eyes toward Japan as "a younger brother toward an older brother"; a number of Osaka businessmen have decided to set aside ¥50,000 annually to be used for the education of twenty young Siamese desirous of pursuing studies in the commercial schools of Osaka; in March of this year several Japanese firms obtained a contract for the construction of 164 railway bridges in Siam against the bids of numerous foreign firms of ten different countries; the War Office announced on April 1 that Japan would soon appoint its first military attaché to Siam and that the person to be sent to the Legation at Bangkok in this capacity would be Major Seiji Moriya of the Army General Staff; and Japan has decided to import a larger quantity of Siamese rice than it has customarily imported in recent years.‡ With regard to the last mentioned report, I am informed that the French Ambassador, upon evincing doubt over the matter in a conversation with the Siamese Minister, was assured by the latter of the truth of the report and of the feasibility of the Japanese proposal.

On the evening of April 16 the Siamese Minister gave a large, carefully arranged, and sumptuous reception at which a troupe of Siamese dancers then visiting in Japan gave an exhibition of their art. This reception was attended not only by the diplomatic corps almost "en masse" and by high Japanese officials, including the Premier, the Cabinet, and numbers of Army and Navy officers, but also by Prince and Princess Chichibu and eight other Imperial Princes and their consorts.

‡ Embassy's Monthly Reports for January, 1935, Section II (*e*) and March, 1935, Section II (*j*). [Footnote in the original; reports not printed.]

It may be noted in this connection that the present Prime Minister practically never attends diplomatic functions.

As reported in the Embassy's telegram No. 92 of April 26, 1935, the *Jiji* of April 23 published a report that the Government of Siam had approached the Japanese Shipbuilding Association for the delivery of thirty "warships" to cover a six-year building programme and that the Association was favorably disposed toward the proposal. Immediately after the publication of the report, an official press ban was placed by the Japanese authorities on further comment concerning the matter, which would indicate that the *Jiji* report had some foundation. In addition, press telegrams to American newspapers on this subject were stopped by the censor. Mr. Wilfrid Fleisher, correspondent of the *New York Herald Tribune*, informs the Embassy that he sent a report on the Siamese proposal to his newspaper by mail and that it will reach New York about May 7th or 8th. The news despatch of Mr. Fleisher comments also on the general question of a Siamese-Japanese *rapprochement* and mentions some of the developments already set forth in this despatch. The Commercial Attaché, who is well acquainted with the Siamese Minister, states that he was informed by him that the warships which the Siamese Government desires to have built in Japan are "a few" coast guard cutters and not thirty men of war.

Several factors appear to underlie the apparent urge toward a strengthening of friendly relations between Japan and Siam. To begin with, Buddhism is the predominant religion both in Japan and Siam, and there have been quite close religious connections between the two countries over a long period. Also, Siam was the only member of the League of Nations that abstained from voting at Geneva when the League adopted the Lytton Report. Besides, there may be some truth in the report, mentioned above, that the Siamese Government desires to lessen Western influence in Siam. M. Mitrakarm Raksha stated to the Commercial Attaché of the Embassy that the Siamese were somewhat annoyed with the British over the actions during the last few years of the British financial adviser to Siam, who holds his position under the provisions of Great Britain's loan agreements with that country. There is apparently a feeling among the Siamese that the British adviser has been negligent toward the welfare of Siam and has abused his position to promote British interests. Finally, a Siamese-Japanese *rapprochement* would logically fit into Japan's embryonic Pan-Asiatic scheme.

It is impossible to predict the larger consequences of the present growing understanding between Japan and Siam. The French Ambassador, at any rate, is of the opinion that Siamese-Japanese cooperation

must be reckoned with now for the reason that it may eventually have an important effect on the political situation of the whole of Asia.

Respectfully yours, JOSEPH C. GREW

861.77/4362

Memorandum by the Minister in China (Johnson)[40]

NANKING, May 7, 1935.

In the course of conversation today with Mr. Bogomoloff, the Soviet Ambassador to China, the latter stated that there had been in the last two years a great deal of development in Siberia. He stated that on his return from his recent visit home he had stopped off at Khabarovsk for a visit as he had a number of friends there from former times and he had been astonished at the growth of that city. He remarked that Vladivostok and Khabarovsk had grown so that he hardly knew the places.

Mr. Bogomoloff stated that the double-tracking of the Trans-Siberian Railway had proceeded so far that it was expected that it would reach Khabarovsk this year. He said that the line would not be double-tracked beyond Khabarovsk as Khabarovsk was to become the center of Russian effort in Eastern Siberia. He said that these developments in Eastern Siberia were absorbing most of the resources now available and this accounted partly for the fact that Soviet Russia had little to offer in trade between Soviet Russia and China. He commented upon the rapid development of the resources along the Angara River which flows north from Lake Baikal and stated that the project of a railway north of Baikal from the station on the Trans-Siberian somewhere near Verkneudinsk to a point near where the Railway meets the upper bend of the Amur, northeast of Chita, for the purpose of shortening the distance between Moscow and Khabarovsk, was still under way although it would take considerable time to complete this railway in view of the difficulties of the terrain. Mr. Bogomoloff also stated that a road was being constructed northward from Khabarovsk to a new port on the Amur named Komsomolsk, a place accessible to deep-sea vessels for about six months of the year according to Mr. Bogomoloff. Mr. Bogomoloff did not say so but I inferred that the Soviet Government will attempt to develop the mouth of the Amur as a port of entry for Eastern Siberia rather than Vladivostok.

Mr. Bogomoloff referred to the Japanese desire to purchase Northern Sakhalin and stated that Soviet Russia was not interested in disposing of Northern Sakhalin or of the oil resources there. He stated that a

[40] Copy transmitted to the Department by the Minister in China in his unnumbered despatch of May 15 from Nanking; received June 15.

very large refinery had been built at Khabarovsk and that the output of petroleum from Northern Sakhalin was barely adequate to meet the current needs in Eastern Siberia which had to be supplemented by importations from the fields at Baku. Mr. Bogomoloff remarked in this connection that Soviet Russia did not feel that its relations with Japan had yet improved to a point where they could feel secure.

NELSON TRUSLER JOHNSON

793.94/6995

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

NANKING, May 9, 1935.
[Received June 1.]

SIR: I have the honor to refer to recent telegrams of the Legation with regard to public utterances of a tenor friendly to Japan made by General Chiang Kai-shek, Dr. Wang Ching-wei, and Mr. Sun Fo and to report that there has occurred a change in the attitude of Mr. T. V. Soong, Chairman of the National Economic Council, toward the Japanese.

During a conversation which I had with Mr. Soong on April 26 I learned that, although he has apparently not changed his attitude of hostility, fear, and suspicion of Japanese motives, he was no longer refusing to see Japanese and discuss matters with them. In fact, he stated that he had found among Japanese bankers and business men a much more sympathetic attitude than was formerly the case and that in recent months he had had many conversations with Japanese bankers who indicated a readiness on their part to cooperate with China.

According to a well-informed Japanese source, the change in Mr. Soong's attitude became apparent last December. As a result of his interest being aroused through hearing indirectly the views of two leading Japanese residents with regard to China's financial situation, Mr. Soong arranged to receive these Japanese, one of whom is a banker, and to discuss the question with them. Subsequently, in January, he received from the banker a memorandum of suggestions of measures which the National Government might take in order to cope with the financial situation. Among these suggestions were one that the National Government reorganize certain Chinese banks in order that it might have more effective control over them, another that the advice of the Foreign Bankers' Association at Shanghai be obtained, and a third that cooperation with Japan be carried out. The first two suggestions have already been acted on, and the third is still a question.

The change in the attitude of Mr. Soong, who was formerly regarded as one of the outstanding opponents of Chinese conciliation of Japan, illustrates again the increasing unity of Chinese officials in the belief that, in the present critical situation and in the improbability of assistance from Western nations, "friendship" with Japan is practically inevitable.

Respectfully yours, NELSON TRUSLER JOHNSON

793.94/6996

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

NANKING, May 9, 1935.
[Received June 1.]

SIR: I have the honor to refer to my telegram No. 126 of March 23, 12 noon, 1935, in which I expressed the opinion that recent Sino-Japanese conversations which had been the subject of widespread speculation were primarily for the purpose of an improvement of a general character in those relations and that there would be gradually apparent evidence that such improvement was being effected, and to supplement this view, which is apparently becoming more and more widely held by Chinese and Japanese observers, with comment made to me April 26 by Mr. T. V. Soong, Chairman of the National Economic Council, and to a member of my staff on April 27 by Mr. S. Matsumoto, a Japanese liberal who has been the head of the Rengo (Japanese) News Agency in China for the past two years. (A copy of a memorandum of my conversation with Mr. Soong is enclosed.[41])

Mr. Soong informed me that the Japanese were now concentrating on working out some plan for economic cooperation with China and that there were no demands being made in this connection. He said that the Japanese, however, were pressing the Chinese very hard along certain lines. It would seem that these Japanese desiderata did not play an essential part, with one exception, in the now famous conversations, as I shall indicate in listing them as Mr. Soong gave them to me. It would also seem that these desiderata may be considered as among those developments which may be expected gradually to take place, at least in some measure, as an outcome of improved relations.

Mr. Soong said that the Japanese were pressing the Chinese in respect to five matters.

(1) The Japanese wish to establish a Sino-Japanese air transportation company with the right to operate air lines in provinces of North China. (Heretofore both Chinese and Japanese informants have

[41] Not printed.

stated that the Japanese wish, under the terms of an agreement reached at the time of the signing of the Tangku Truce of May 31, 1933, to establish aerial connection between Manchuria and North China. It is possible that Mr. Soong is mistaken in the extent of the service desired by the Japanese. At least it would seem to belong to the consequences of the Tangku Truce rather than to any new developments.)

(2) The Japanese wish to construct a railway from Shihkiachuang, near the Shansi coal fields, northeastward to connect with the Tientsin-Pukow line at a point near Tsinan (Tsangchow). (As reported by the Legation to the Department last summer, the question of construction of this line has long been a subject of conversation between interested Chinese and Japanese.)

(3) The Japanese wish to effect cooperative exploitation of cotton-growing in North China. According to Mr. Soong, the idea of the Japanese is not to purchase Chinese cotton outright but to advance money, seed, and machinery to Chinese farmers, export their labor through cropping arrangements, and obtain control over the cotton in order that it may be sold in whatever market is best. (This question has also long been known as under discussion, presumably between industrialists rather than between representatives of the governments of the two countries.)

(4) The Japanese wish to have China accept Japanese advisers, especially in the Ministries of Finance and of War. (This question, it is believed, figured in the recent conversations above-referred to, although it is by no means a new one, and I shall discuss it more in detail later in this despatch.)

(5) The Japanese Navy, through the Government [*Governor?*] General of Formosa, is pressing on the Fukien Provincial Administration a loan of $40,000,000 (Chinese currency) for "reconstruction purposes". (This would seem to me to be probably a question not dealt with by the two central governments but a local question pushed by the Japanese Navy and another evidence of sectional dealing by the Japanese with provincial Chinese authorities.) Mr. Soong added that the National Government was unwilling to authorize the Chairman of the Fukien Provincial Administration to agree to this arrangement and that the Japanese were adopting a threatening attitude as a result.

From what Mr. Soong said, it would seem that the recent conversations were primarily intended by the Japanese for a general improvement of relations which would make it possible for the Japanese to obtain eventually various agreements on such questions as those reviewed above.

Mr. S. Matsumoto informed a member of my staff that the gist of the significant conversations for cooperation was as follows: the Japanese Minister had called on General Chiang Kai-shek in January and had asked General Chiang to declare himself either for or against the Japanese and, in case he was "for the Japanese", to put down anti-Japanese activities in order that Sino-Japanese trade might revive. Mr. Matsumoto said that Japanese diplomats had presented no other

"demands" but that at about the same time a Japanese military officer had called on a Chinese military officer (presumably General Suzuki, then Japanese Military Attaché, and General Chiang Kai-shek) and had stated that the Japanese would like to have the Chinese employ Japanese advisers.

When asked about the aims of the Japanese military and of the Japanese diplomats, Mr. Matsumoto replied that the Japanese military were not interested in economic questions but in strategic questions, and that their primary object was to make certain that the Chinese army would not become a menace to Japan, an object which they believed they could obtain through the appointment of advisers. Such appointment, he said, would result in the adoption by the Chinese military of Japanese military tactics and strategy and the use of Japanese-made equipment. He summed up the situation by saying that the Japanese military wished to establish a relationship with the Japanese [*Chinese?*] military similar to that existing between the navies of the two countries. According to Mr. Matsumoto, the object of the Japanese Foreign Office was an improvement of feeling between the two countries which would make possible greater economic cooperation.

Mr. Matsumoto also said that the Kwantung Army (or "Manchukuo") regards China as a foreign country which it may possibly be necessary to conquer, while the military and the civilian officials in Tokyo believe that Sino-Japanese friendship is requisite. He added, however, that he does not expect the Kwantung Army to take military action in China because he believes that it will be kept contented by gradual developments, including the appointment of Japanese advisers and the establishment of aerial connection between North China and Manchuria.

From this and other information obtained from both Chinese and Japanese sources, it would seem that the less reactionary Japanese are insisting on the stamping out of anti-Japanese feeling in the hope that good relations may bring about an improvement in Japan's economic situation, which will help to solve Japan's population and food problems, while the Japanese military are at the same time working toward the end of keeping China subservient to Japan militarily. It may well be that the end of either policy, as far as China is concerned, will be the same. Both policies imply infringement of Chinese independence.

It seems at present that the reactionary Japanese military are willing for the time being to permit the more liberal Japanese to try out their policy of achieving their end through diplomacy, a development which scarcely seems to mean, however, that the more liberal Japanese element is stronger than it has been since the Manchurian incident.

Rather, it would appear that the liberal element is now permitted to act on sufferance of the reactionary military.

Respectfully yours, NELSON TRUSLER JOHNSON

793.94/6991

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

No. 1289 TOKYO, May 10, 1935.
[Received June 1.]

SIR: I have the honor to report that for the past few weeks there has been apparently a slight falling off of interest on the part of the Japanese press in the reported negotiations looking toward a Sino-Japanese *rapprochement.* Although this fact cannot be taken as an indication that the efforts toward cooperation between the two countries are believed to have failed, there seems to be a general feeling that the conclusion of an eventual understanding will require more time than at first was expected. Furthermore, some of the newspapers have exhibited less credence than previously in China's reported change of heart on the question of anti-Japanese agitation and boycott.

Upon his arrival in Tokyo on April 1 Major General Kenji Doihara, of the Mukden Special Service Department of the Kwantung Army, was reported by the *Japan Times* of that date to have stated that the Chinese leaders in Nanking and Canton hoped to obtain Japanese assistance for the subjugation of communist troops in China and that this fact might have been the major cause for China's desire for the friendly cooperation of Japan. He was further said by this newspaper to have told press correspondents that there still remained the question as to how far the Japanese could believe China's expressions of friendship and that under such conditions it would be best for Japan to watch developments calmly before deciding upon a definite policy. According to the *Japan Chronicle* of April 19, Major General Doihara expressed very much the same ideas in Osaka on April 17 on his way back to his post in the Kwantung Leased Territory. Mr. Ariyoshi, the Japanese Minister to China, another official who has recently made an inspection tour of China, expressed similar though somewhat more optimistic views on the Sino-Japanese situation, as reported by the press, upon his visit to Japan during the latter part of last month. The *Japan Chronicle* of April 23 attributed the following statements to Mr. Ariyoshi, said to have been made by him in Kobe on April 22: that it would be foolish to believe that the situation in China could be changed quickly; that the proper view to take was that the situation had improved to the extent that the

Nanking authorities had thought fit to make a friendly gesture to Japan; that in his opinion it would be best to accept China's profession of friendship and to utilize the present opportunity for the settlement of outstanding problems; and that there was no doubt that the Nanking Government was earnestly endeavoring to suppress anti-Japanese movements. The vernacular newspapers made various conjectures concerning the reports on the situation in China submitted to the Foreign Office by Mr. Ariyoshi after his arrival in Tokyo, although the Ministry for Foreign Affairs has issued no announcement concerning its conferences with that diplomat. For example, the *Asahi* of April 23 reported that the Minister to China had told Mr. Hirota that China's most urgent need was an economic *rapprochement* with Japan, that Japan need not "necessarily" oppose international loans to China; that the sincerity of the Nanking Government in its attitude toward Japan should be recognized; and that his personal view was that relations in general had certainly become better.

The *Hochi* of April 10 interpreted the apparent lull in the Sino-Japanese situation as an indication of a coming improvement in the relations between Japan and China. On the other hand, the same newspaper admitted that there were certain obstacles that stood in the way of a Sino-Japanese *rapprochement*, one of them being the attitude taken by certain Japanese that China must recognize "Manchukuo" before there could be a *rapprochement*, another obstacle being the growth of an opinion in China in favor of the recovery of the four Eastern Provinces lost as a result of the Manchurian incident of 1931 and succeeding events. These statements of the *Hochi* may be taken as a typical illustration of the uncertainty prevailing in the Japanese press, and perhaps among the public generally, with regard to the much discussed *rapprochement.*

From all reports it would appear that the Japanese military persist in refusing to accept Nanking's reported professions of friendship for Japan at their face value.* According to the *Asahi* of April 25, Mr. Ariyoshi's alleged endorsement of the view that the Nanking Government is sincerely desirous of better relations with Japan has stirred military circles to point out that Chiang Kai-shek's friendly expressions and promises can be explained by an "ingenious" scheme in the back of his mind. The military are reported to believe that the Chinese leader's two main objectives are the unification of China and subsequent revenge on Japan; that he deems it politic to keep relations with Japan as quiet as possible pending the settlement of

*Embassy's despatch No. 1204, March 19, 1936. [Footnote in the original; despatch printed on p. 560.]

disturbed domestic conditions in China; that in his opinion the United States and Great Britain consider it prudent to withhold support from China until Sino-Japanese relations have improved; and that therefore he has made friendly gestures toward Japan and has succeeded in making it appear, at least on the surface, that Sino-Japanese relations have undergone a change for the better.

Recent rumors that the Japanese Government was seriously contemplating the raising of its Legation in China to the status of an Embassy† proved to be well founded yesterday, when the Vice Minister for Foreign Affairs informed me of the decision of the Japanese Government to take this step within the next few weeks.‡

There has been noticeably less comment of late on reports of international assistance to China.§ The general attitude of the press appears to be that Great Britain's proposed international loan to China has fallen through partly as a result of the alleged lukewarm attitude adopted toward the proposal by the United States.

According to the *Japan Advertiser* of April 6, on the preceding day the Foreign Office spokesman expressed suspicion of Great Britain's policy toward China, stating that the reports of what the British were doing in regard to China were so conflicting that their real intentions could not be known; that there was no need for the British mediation between Japan and China which had been urged upon the House of Lords by Lord Peel on April 3rd; and that the best thing would be to let Japan and China alone. Mr. Wilfrid Fleisher of the *Japan Advertiser* informed a member of the Embassy's staff that on this occasion Mr. Amau had been more than usually vigorous in his manner of expression. On April 6 the *Asahi* printed an editorial repudiating "British mediation" between Japan and China and alleged British attempts to interfere in the settlement of various pending problems in the Far East. The British Ambassador was instructed by his Government to protest emphatically to the Minister for Foreign Affairs against the statements made to press correspondents by the Foreign Office spokesman on April 5.‖ Sir Robert Clive told me on April 11 that he was convinced that the *Asahi* article above-mentioned had been inspired directly by Mr. Hirota, a close friend of the editor of that newspaper.

Respectfully yours, JOSEPH C. GREW

†Embassy's Monthly Reports for March and April, 1935. [Footnote in the original; reports not printed.]

‡Embassy's telegram No. 101, May 9, 1935. [Footnote in the original; telegram printed on p. 508.]

§Embassy's despatch No. 1204, March 19, 1935. [Footnote in the original; despatch printed on p. 560.]

‖ Embassy's telegram No. 78, April 11, 1935. [Footnote in the original; telegram not printed.]

792998—53——18

893.00/13079 : Telegram

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

PEIPING, May 11, 1935—11 a. m.
[Received May 11—2:45 a. m.]

192. Reference Legation's 186, May 7, 10 a. m.[42] Ringwalt [43] reports that Chiang Kai-shek arrived at Yunnanfu on May 10th. He also reports that several thousand Reds are believed to be still in the mountains north of Wuting and that the majority have crossed the Yangtze River at various places above and below Tungan.

For the Minister:
LOCKHART

761.93/1544 : Telegram

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

Moscow, May 14, 1935—noon.
[Received 1:05 p. m.]

191. Last night I reminded Dr. Yen, the Chinese Ambassador, that he had informed me in Peiping that he would not return to Moscow unless he had some very important, specific work to do here and that he had refrained from telling me what the work was. In strictest confidence he replied that he had brought to the Soviet Government from Chiang Kai-shek the statement that in case there should be a war between the Soviet Union and Japan the Soviet Government could count on the armed support of China. He added that the Soviet Government had taken this statement at its face value and had been so delighted that relations between the Soviet Union and China had been placed on an entirely new footing. He asserted that Bogomolov, Soviet Ambassador to China, had received instructions to collaborate with Chiang Kai-shek in every way possible.

Dr. Yen also stated that he had definite information that Japan was about to raise her Legation in China to an Embassy [44] and expressed a most ardent desire that the United States should follow the same course.

BULLITT

---

[42] Not printed.
[43] Arthur R. Ringwalt, Vice Consul at Yunnanfu.
[44] See pp. 508 ff.

761.9312 (Aggressor)/2

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

NANKING, May 15, 1935.
[Received June 15.]

SIR: I have the honor to report that the Soviet Ambassador to China, Mr. D. Bogomoloff, told me on May 7, 1935, with regard to a non-aggression agreement between Soviet Russia and China, that when he arrived in China in 1934 he had presented to the National Government a draft of such a treaty and that for a time he had conducted a desultory negotiation with the Chinese Foreign Office, but that the Chinese apparently had lost interest in the matter and that the whole question had been dropped. Mr. Bogomoloff stated that he believed that the loss of interest on the part of the Chinese had been due to notification by the Japanese that the negotiation of such an arrangement would be considered by the Japanese as an unfriendly act on the part of the Chinese. (A copy of a memorandum of the conversation during which these remarks were made is enclosed.[45])

Respectfully yours, NELSON TRUSLER JOHNSON

793.94/7067

The Consul at Dairen (Grummon) to the Ambassador in Japan (Grew)[46]

DAIREN, May 15, 1935.

SIR: I have the honor to report that Colonel Takashi Sakai, chief-of-staff of the Japanese garrison in North China arrived yesterday morning at Dairen en route to his post at Tientsin, and made a long press statement regarding present relations between Japan and China. The following extracts therefrom may be of interest to the Embassy in view of the recent report that the Japanese Foreign Office has decided to raise the Legation at Peiping to the rank of an Embassy as well as of reports that the military is opposed to such a change:

"The present North China situation should cause neither jubilation nor any anxiety. It is gradually improving from the Japanese viewpoint, but no rapid and drastic change in the pending Sino-Japanese relations could be confidently expected until all the vicious anti-Japanese agencies in China are exterminated, and the Nanking leaders have a thorough cleansing of their hearts, and cease indulging in the rainbow hope of an active Occidental coalition against Japan. The situation requires patience and vigilance on our part; the time and the logic of events are in our favor.

[45] Not printed.
[46] Copy transmitted to the Department by the Consul without covering despatch; received June 17.

"I went to Tokyo primarily to attend the annual conference of the chiefs-of-staff of the entire Japanese army," explained Col. Sakai, "But I also met while there number of eminent military and civilian dignitaries of the Imperial government. It was rather strange to hear some responsible officials there accepting almost at face value the recent pro-Japanese statements of the Nanking emissaries. Some Japanese industrialists and traders, interested in Chinese trade, who should know better, were also inclined to dance to the Nanking music of feigned friendship.

"The general public in Manchuria and abroad should keep in mind the fact that occasional disorders, kidnappings, and murders of traders, editors and officials are normal events in China, and should not place undue importance to such affairs. China has been a disorderly land for ages; the present era is really no worse than many previous epochs in that country.

"The recent murders of two Chinese editors in Tientsin were given undue importance in newspapers. The murdered men were persons of no importance, and China has plenty of assassins for hire.

"I can assure you that there is no conflict of views between the war and foreign ministries in Tokyo. There may have been minor differences of opinions between certain officials of the two ministries. But the cardinal policies of the war and foreign ministries are cooperative and harmonious, specially in regard to China.

"The Tokyo official circles are well aware that the present Nanking government is honeycombed with anti-Japanese influences and agencies. From Chiang Kai-shek down there are many anti-Japanese politicians, generals and agitators holding prominent posts in the Nanking government. Probably, nothing short of the inexorable course of events will change their minds. That takes some years.

"Viewed from a larger prospect of history the Manchuria Incident and its aftermath, meaning the present Sino-Japanese relations, are simply a natural and belated result of the Russo-Japanese war. That has complicated the position of Japan in Manchuria and China. The complicated situation was allowed to drift for nearly 30 years, until the events of September, 1931, brought it to a climax. We are now witnessing the gradual and natural settlement of that explosive climax.

"So there is nothing to warrant anxiety nor fear on the part of the Japanese people. They should face the Chinese situation with confidence and calm. We have the power to tide over the crisis, started four years ago and now settling favorably."

The *Manchuria Daily News* of last night carried an editorial regarding the projected change in status of the Legation at Peiping stating "that Great Britain, United States and France which have considerable interests and rights in China have not yet deemed it fit to raise their respective legations in China to the status of embassies. Only Italy has raised the Italian legation in China to an embassy, but in reality the result is nothing to boast about."

[Here follows further quotation of the editorial.]

Respectfully yours, STUART E. GRUMMON

761.948/126 : Telegram

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

Moscow, May 16, 1935—1 p. m.
[Received May 16—11 : 45 a. m.]

198. Tass communiqué states that on Monday 13th Litvinov informed Japanese Ambassador in reply to note of Japanese Government of April 14th that "in view of Soviet policy of strengthening friendly relations with Japan and also taking into consideration that in the main the existing convention satisfies the interests of both sides the Soviet Government agrees not to raise the question of reconsidering the fishing convention."

At the same time Soviet Government declares its readiness "within the framework and on the basis of the existing convention immediately to enter into negotiations in the most friendly manner to regulate various questions arising in the process of the application of the convention in former years with a view to the results of these negotiations being formulated in the form of a prolongation for a certain period of the agreement signed at Moscow by Hirota on August 13, 1932."

Japanese Embassy states that its Government desires definite and permanent allocation of all fishing lots and the elimination of system of auctions. System of auctions stated to be more beneficial to Soviet Government.

Japanese evidently satisfied with old conversion rate of 32.50 sen per ruble.

My impression is that there will be no great difficulties in negotiations. Policy of Litvinov in Far East continues to be the progressive liquidation of all possible elements capable of causing friction in Soviet-Japanese relations.

BULLITT

792.94/14

The Siamese Minister (Prince Damras) to the Chief of the Division of Far Eastern Affairs (Hornbeck)

WASHINGTON, May 18, 1935.

DEAR MR. HORNBECK: You have no doubt seen articles in the newspapers of the 13th and 14th May that Siam's neighbours are alarmed by the increasing influence of Japan, and that some sort of special treaty has been signed with that country.

Remembering that you have once asked me about the Japanese influence in my country, and I then said that I had no information re-

specting the matter, I am now in a position to inform you that there is no truth in the reports given by the Associated Press to the various newspapers, and I am instructed to assure you that it is the policy of His Majesty's Government to strengthen the bonds of friendship with all the treaty Powers alike, and not with any single one in particular.

Very sincerely yours, DAMRAS

792.94/16

The Minister in Siam (Baker) to the Secretary of State

No. 222 BANGKOK, May 18, 1935.
[Received June 6.]

SIR: I have the honor to refer to the subject of the development of *rapprochement* between Siam and Japan, regarding which rumors have persisted for the last two years, with a recent tendency to increase, and to submit the following report regarding the character of the rumors, the evidences of such a trend of policy on Siam's part as they imply, and the influences tending to promote or curb a *rapprochement* between the two nations.

Upon the accomplishment of the *coup d'état* of June 24, 1932, it was generally feared by certain European nations that their influence in Siamese affairs would be greatly diminished, and the possibility of communism and other radical policies was discussed in foreign publications (Legation's despatch No. 59, of May 1, 1934, entitled, "Comments on article of Baron de Lapomarède in the 'Contemporary Review'"[47]). The new regime is obviously averse to relying in the former measure on advisors from abroad, employing foreign educators, and sending its students abroad; it likewise shows a desire to admit no further foreign industries and to replace foreign industries by government enterprises, but it has as yet done little toward realizing this desire. A solution of fiscal problems seems to account in part for these particular aspects of antiforeignism. In any event, the extent to which Siam has undertaken to shake off European influence appears overstated in the world news; it should be considered that Siam is still a member of the League of Nations and has uniquely included a clause in its constitution reading, "A declaration of war will only be made when it is not contrary to the provisions of the Covenant of the League of Nations." While a definite statement or any assurance as to the trend of the Siamese Government is even yet impossible to make, it may be safely said that the rumors were exaggerated and the misgivings were but partially justified, for al-

[47] Not printed.

though foreign trade has suffered and much legislation has been passed showing little regard for foreign interests, if not deliberately unfavorable to them, the new administration has up to the present followed a comparatively cautious policy and shown no strong tendency to elude the influences to which it has been subject in the past.

In the early part of the constitutional regime, conjectures arose as to whether Siam under the new spirit of nationalism might become interested in a Pan-Asiatic movement and become leagued in its international policies with other oriental states. As there are only two nations, China and Japan, with which a linking of interests might be suspected and there were good reasons to believe that Siam would not be strongly drawn to either, little basis at first could be found for these surmises, but the primary position of Japan in Siam's import trade, the increased frequency of missions of various types, an apparent emulation of Japanese militarism by the military group in control of the Siamese Government, and an assiduous promotion of the idea through publicity in Japan now give support to the belief that a general *rapprochement* between Siam and Japan is developing. It is believed that a careful consideration of all the facts available will show that the aim of *rapprochement* has been fostered almost entirely by the Japanese side; the Siamese response has been little more than passive.

The first favorable act of the Siamese regime that brought attention to the possible development of increased good will between Siam and Japan was the abstention of the Siamese delegate to the League of Nations on February 24, 1933, from voting on the League's recommendation regarding the Manchurian dispute. While the abstention was apparently neutral in character and the favorable Japanese market for Siamese rice at the time would have made a vote against Japan rather indiscreet, the Japanese press proceeded promptly to magnify the importance of Siam's vote, if only to seek a way out of its own humiliation and understate the moral judgment which the passage of the resolution implied. The following news items appeared in the *Bangkok Daily Mail* of February 27, 1933:

JAPAN THANKS SIAM FOR NOT VOTING ON MANCHURIAN REPORT

(By Transocean Radio)

Tokyo, Feb. 25—The Parliamentary Committee and the Ministry of Foreign Affairs passed a resolution expressing their thanks to Siam for having abstained from voting in the League Assembly at Friday's sitting.

(By Reuters Service)

Tokyo, Feb. 26—Profound gratification was expressed in the Lower House by the Committee in a session on Siam's action in abstaining from voting against Japan.

(By Rengo Radio)

Tokyo, Feb. 25—Tokyo gives prominence to a Geneva message that the Siamese delegate abstained from voting on the League's recommendations regarding the Manchurian dispute at yesterday's League Assembly.

This friendly gesture towards Japan by Siam, the only independent State in the Orient except Japan and China, is greeted with a keen appreciation not only by the Pan-Asiatic League here but by the people in the general and the officials, who are convinced that only Asiatics can appreciate Japan's legitimate position.

A study of the information available in the Legation's records shows few signs of any effort on the part of either Siam or Japan to promote the friendly relations between them before the beginning of 1934. Even in 1931 Japanese propaganda was evident in Siam for the purpose of offsetting disapproval of Japan's operations in Manchuria. Following the Mukden incident (September 18, 1931) and throughout 1932 the boycott of Japanese goods by the local Chinese on an effective scale seemed probable; appeals of the local Japanese Legation were apparently effective, though it cannot be stated whether the Siamese Government was influenced by sympathy or by prudence in suppressing the boycott. In October 1932 a Japanese fisheries vessel visited Siam and permission was sought for Japanese fishing in Siamese waters; vigorous opposition of the industry prevented granting of the right. There were some subsequent occasions (from 1932 to 1935) of arrest of Japanese fishers poaching in Siamese waters; full reports were seldom given as to punishment, but rumors, perhaps true, circulated to the effect that punishment was alleviated by protests from the Japanese Legation.

In the twelvemonth following the abstention from voting so much appreciated by Japan, the restriction of rice imports by that country, instituted in October 1933, and the poaching of Japanese fishers tended to strain relations from the Siamese standpoint. On the other hand, in August 1933 a statement appeared in a Siamese newspaper that Japan had promised to help Siam in case of foreign intervention in Siam's affairs; a communiqué denying the report was promptly issued by the Siamese Government.

Early in 1934 two rumors affecting the relations of the two countries gained prominence in newspapers of southeastern Asia. One of these rumors alleged an agreement for the building of a canal across the Kra peninsula by Japanese interests; it had its origin in Singapore and may have had the purpose of stimulating interest of the British public in the Singapore naval base at a time when appropriations were under consideration in London. (Reference is made to my despatch No. 80, of May 29, 1934,[48] regarding the Kra canal project.) This rumor was

[48] Not printed.

emphatically denied by the Siamese Government. The other rumor reported plans for the smelting of Siamese tin by a Japanese smeltery to be established in Indochina; it emanated from Penang and was disturbing principally to British interests. Neither of these rumors was ever satisfactorily verified.

Among later rumors it was reported that a Japanese air service would soon be established between Tokyo and Singapore, including Bangkok as a station.

During 1934 and 1935 the activities of delegations from the one country to the other and Japanese naval visits have attracted note. Since February 1934 Siam has received one major trade delegation and three naval visits from Japan; on the last naval visit the existence of good will in the history of the two nations was stressed and plans were made for the erection in Bangkok of a monument to Yamata Nagamasa (called in Siamese Chao Phya Nagara), a Japanese of some note in Siamese history, to commemorate the good will of the two nations, the cost to be provided by contributions of the Japanese. In the same period a number of Siamese delegations have visited Japan; these include Siamese officials sent at Government expense to the Conference of Pan-Pacific Buddhist Associations held at Tokyo and Kyoto in July 1934 and a trade delegation sent by the new Siamese Chamber of Commerce to attend the Commercial Exhibition at Osaka in October 1934. Early in 1935 some forty officials of the Siamese Government were granted funds for visiting neighboring countries for purposes of study and observation in their special fields; many of these officials will spend part of their time in the Philippines, but practically all of them will visit Japan, where considerable publicity regarding Siamese interest in things Japanese will naturally be forthcoming. A group of Siamese dancers left Bangkok for Japan in March 1935, planning to give exhibitions there; it is authoritatively stated that the venture was financed and originally promoted in Japan. Since the new Siamese leaders have a military background and are interested in promoting the military efficiency of the country, they have tended to emulate Japan, and on this account have assigned military and naval officers to study in Japan; it should be noted, incidentally, that the first Minister appointed to Japan by the new regime, Major General Phya Indra Vijit, appointed August 22, 1932, had previously followed a military career. (The present Minister to Japan, Phra Mitrakarm Raksha, has followed a career under the Ministry of Foreign Affairs.) The extent to which the Siamese Government has taken initiative or merely responded to invitations in sending officials to Japan may be variously interpreted; while it may be confuted that the Siamese Government is more than mildly inclined to any interest in a trade *rapprochement* or a political *rapprochement*, it is quite evident that the Siamese leaders,

who won their position in national affairs by military force and are devoted to a militaristic policy, have followed the military trend in Japan attentively, hoping perhaps to profit by the Japanese example rather than sympathizing with Japanese aspirations. Phra Mitrakarm Raksha's reference to Japan as the "big brother" of Siam on his arrival at Kobe last June to assume the post of Siamese Minister is perhaps the most extreme utterance of a Siamese official suggestive of a common interest.

Certain developments in the official missions of the two countries pointing to increased interest in their relations with each other occurred in 1934. In August 1934 a member of the Japanese Naval General Staff assumed his duties as Naval Attaché to the Japanese Legation; the Legation also has a resident Military Attaché. No other country maintains a naval attaché in Bangkok, and only one other, France, has in recent years maintained a resident military attaché. In the same month Phra Pramonda Panya was appointed as first Siamese Trade Commissioner to Japan; Phra Pramonda was at the time Acting Director General of the Siamese Department of Commerce (under the Ministry of Economic Affairs) and was well qualified for the assignment.

The deteriorated condition of the Siamese press, effected by adverse business conditions and by censorship, has been a harmful factor in influencing the Siamese viewpoint regarding affairs abroad. The attitude of both the general public and state officials toward foreign nations is naturally dependent upon the character of foreign news disseminated here. A limited educational background in rural Siam renders a large portion of the country's population negligible in the force of public opinion. In general, public opinion would be exerted by the officials and employees of the Siamese Government, in Bangkok and also throughout Siam, and by the Chinese and Siamo-Chinese, largely urban; further reference will be made to this point.

The Rengo agency, reported to be subsidized by the Japanese Government, has supplied Bangkok newspapers with much propaganda in the last few years; the volume of Japanese news compared with European and American news, not to mention its quality, might create an unduly high estimate of Japan's place among the nations; as to substance, the news deals primarily with developments creditable to Japan, the unflinching determination of that nation and each triumphant step in relation to the sale of the erstwhile Chinese Eastern Railway, withdrawal from the League of Nations, retention of the Mandated South Sea Islands, relations with Manchukuo, and the like, being reiterated with unnecessary frequency while the subject remains in the foreground. A difference with France on some small

islands claimed by Japan was several times reported with assurance that Japan would never give them up, but no final report of the disposition of these islands was ever provided. Such matters as occupation of southern Chinese ports by Japanese troops and the visit of General Doihara to Hong Kong are never reported in the newspapers of Siam, and it appears quite reasonable that Japan should not desire to have such news published in Siam.

While a copious supply of Rengo news of the nature specified might create a false perspective among the Siamese as regards Japan, it is well to consider that the portion of Siam's population interested in foreign affairs sufficiently to read the news is largely Chinese and Siamo-Chinese. Occasional statements that Siam's population is one sixth Chinese are subject to question; however, estimates of a million Chinese of pure stock (including those born in Siam) and an equal number of Siamo-Chinese at least half of Chinese stock are not unreasonable. The number of Siamese who are interested in foreign affairs by the same standards probably does not exceed two million. Assuming an attitude of hostility on the part of the local Chinese and Siamo-Chinese toward any *rapprochement* with Japan, there is little probability that close cooperation will develop. Although the political leaders of Siam are somewhat free at present from any necessity of taking public opinion into consideration, this situation makes *rapprochement* with Japan in a major aspect highly improbable.

Most of the leaders of present-day Siam have been educated in Europe and America; while it is reported that Siamese students are turning to the Japanese universities, the extent and significance of this trend have not yet been ascertained. While rumors have been circulated that Siam was considering the employment of Japanese advisers, experts, and educators, there has been only one instance of employment of a Japanese, an American-educated teacher, and further employment of Japanese seems unlikely. The problem of language is an important consideration in such matters.

The trade situation as regards Siam's imports is no doubt the most serious grievance of European nations at present respecting the relations of Siam and Japan. Statistics showing the proportion of the Siamese import trade taken by various nations are annexed.[49] Exchange fluctuations and the variation of commodity prices make an analysis of the import trade for recent years difficult, as no general reports are readily available dealing with the subject. The statistics reveal unmistakably, however, that Japan has made inroads on the trade of other nations. There is no indication that the Siamese authorities are favoring Japanese trade; so long as the import restric-

[49] Not printed.

tions of Japan which have kept the Japanese market practically closed to Siamese rice since October 1933 remain in effect, there is no likelihood of a trade *rapprochement*. Recent hints have been wired from Tokyo (political report for March 1933 [*1935*])[50] that the restrictions may be abolished. Siamese exports to Japan for recent years are stated as follows:

Year	*Amount in Ticals*	*Amount in Dollars*	*Percentage of Total Exports*
B. E. 2473 (1930–31)	8,188,795	3,562,126	5.1%
" 2474 (1931–32)	8,012,299	3,445,289	6.0%
" 2475 (1932–33)	9,099,904	2,957,469	6.0%
" 2476 (1933–34)	4,253,397	1,743,893	2.9%

A review of this despatch will reveal my view that the recent promotion of good will between Siam and Japan has been fostered almost entirely by Japan, with little more than passive response on the part of Siam, that there are no present signs of trade *rapprochement*, that the Chinese element in Siam tends to insure exclusion of any generally supported political *rapprochement*, and that the prospects of *rapprochement* have been unduly publicized in Japan.

Responsible officials of the Siamese Government are quick to deny any reports to the effect that *rapprochement* with Japan exists in any way. A recent report to the effect that Siam had ordered thirty war vessels from a Siamese [*Japanese?*] shipbuilding concern was officially denied as ridiculous. I am inclined to believe that the denial is genuine and that the report had its origin entirely in Japan, where the motive for representing Siam as a friendly nation is patent.

Incidentally, there is little likelihood that Siam will recognize Manchukuo, as a strong protest from local Chinese would arise immediately if the subject were considered. There has been no report that this subject has ever been discussed by the Siamese Government.

It may be said in a general way that Japan and Siam have little in common, the cultures and the nature and ways of the two people differing widely. Their religions are less similar than is supposed. Historically, the two nations have had very little contact until quite recently. Their language of common approach is English. The position of the English language in Siam will in itself insure a reliance of Siam upon the West for many years of the future, and it is only the matter of trade and the present militaristic aspect of Japan's national life that give foundation to any prospects of *rapprochement* between the two nations.

The features of Siam's relations with Japan which are of most direct interest to the United States, apart from present trade trends,

[50] Not printed.

are probably the efforts of Japanese interests to encourage cotton growing in Siam and the possible influence which success of the Japanese oil policies affecting the petroleum market in Japan and in Manchukuo may have upon the course taken by the Siamese Government concerning the oil industry.

A list of references to the relations of Siam and Japan in the Legation's political reports since September 1931 is enclosed.[51]

Further developments on this subject will be closely followed by the Legation and any occurrences of interest will be reported promptly to the Department.

Respectfully, JAMES M. BAKER

893.20/536

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

No. 10066 SHANGHAI, May 18, 1935.
[Received June 15.]

SIR: I have the honor to enclose a memorandum of conversation[51] between H. T. Rowland, an American citizen, chief of the flying and ground school, Central Aviation Academy, Hangchow, China, and a member of my staff.

The information given by Mr. Rowland indicates that no more than eight of the original sixteen members of the American civilian mission which virtually founded the Academy will be retained at the expiration of their three year contracts in June, 1935. It will be noted from the memorandum that Mr. Rowland has advocated to the Chinese closer cooperation between the Italian, American and Chinese instructors and authorities as a solution of present difficulties, and attributes, at least to some degree, the fall from the grace of the Chinese authorities of the American instructors to the fact that the American Advised (Colonel Jouett) had not attached himself closely to General Chiang Kai-shek while the Italian Adviser definitely had.

Whatever may have been the cause for the disruption of American instruction and maintenance at the Academy, and one may conjure up Japanese objections as well as Italian ascendency, it appears a fact that the very fine American direction of efforts which have brought about the training of some four hundred admittedly excellent Chinese pilots is shortly to be greatly curtailed and possibly eclipsed.

Respectfully yours, EDWIN S. CUNNINGHAM

[51] Not printed.

792.94/14

The Under Secretary of State (Phillips) to the Siamese Minister (Prince Damras)

WASHINGTON, May 21, 1935.

MY DEAR MR. MINISTER: I acknowledge the receipt of your confidential letter of May 18, 1935, to Mr. Hornbeck, in which reference is made to certain recent press despatches in regard to the foreign relations of Siam, and in which assurance is conveyed that it is the policy of His Majesty's Government to strengthen the bonds of friendship with all the treaty Powers alike, and not with any single one in particular.

In noting with appreciation this affirmation of the policy of His Majesty's Government, I take pleasure in assuring you that the principle to which reference is made is likewise a cardinal feature of the foreign policy of the United States.

I am, my dear Mr. Minister,

Very truly yours, WILLIAM PHILLIPS

893.00/13096 : Telegram

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

PEIPING, May 22, 1935—9 p. m.
[Received May 22—10 a. m.]

210. Following telegram has been received from the Consul General at Mukden:

"May 22, 3 p. m. Premier Cheng [53] yesterday suddenly resigned his office and a new cabinet was installed headed by Chang Ching-hui [54] and including several new appointees in replacement of former members. Political significance if any is not yet apparent. A full mail report is in preparation."

For the Minister:
LOCKHART

793.94/6971 : Telegram

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

PEIPING, May 23, 1935—noon.
[Received May 23—9 : 05 a. m.]

211. Major Takahashi, Japanese Military Attaché, on May 20 called on Pao Wen-yueh of the Peiping branch of Military Council and

[53] Cheng Hsiao-hsu, "Manchoukuo" Prime Minister since March 1932.
[54] Hitherto "Manchoukuo" Minister of Defense.

charged that the Chinese were rendering assistance to Chinese volunteers under Sun Yung-chin who had entered Tsunhua (north Hopei) from Jehol; Takahashi said that unless the Chinese themselves suppressed the rebels the Kwantung Army would despatch troops within the Wall on May 21st. In a meeting with Takahashi the same evening Yin Ju-keng, administrative inspector for the Miyün-Chihsien area assured him that the Chinese would exert themselves to suppress the force of Sun Yung-chin and that there was no need for the Kwantung Army to despatch forces inside the Wall.

On May 21 it was announced by the Tokyo War Ministry that a detachment of Kwantung Army troops would enter the demilitarized zone for the work of suppression but that they would be withdrawn as soon as the task had been completed. Japanese forces actually entered the demilitarized zone on May 20 or 21.

According to Japanese Legation official the matter is only a minor one of no particular significance and is not likely to develop new aspects.

Repeated to Nanking. To Tokyo and Tientsin by mail.

For the Minister:
LOCKHART

893.00/13097 : Telegram

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

PEIPING, May 23, 1935—2 p. m.
[Received May 23—10:30 a. m.]

212. The assassination in the Japanese concession at Tientsin on May 3 of two Chinese editors reported to have been engaged in anti-Nanking propaganda has been strongly denounced in Japanese official and private circles. Colonel Giga and Major Takahashi are reported to have conferred on May 9 regarding the matter with high officers of the Tientsin Japanese military headquarters. On May 8 according to a report a military attaché of the Japanese Legation office at Shanghai stated that "Japan could not pass over the assassinations in silence inasmuch as it has become apparent that Chinese officials were behind the murders". Giga is said to have stated on the same day at Shanhaikwan that the general belief was that murders were committed "either by members of the Blue Coat Society or by persons despatched by the Chinese authorities". He states that the Japanese had demanded an inquiry by the Chinese authorities and that "It is understood that the Japanese authorities will call the Chinese to account after the receipt of a reply."

The Legation was reliably informed yesterday that Takahashi states evidence already obtained implicates high Chinese officials. It is now

reported that the Japanese were considering demanding the resignation and withdrawal from North China of those concerned. It is understood that the matter is assuming significant proportions at this time and that important developments may ensue. A report is current today that Japanese military officers yesterday conferred in Tientsin regarding measures to be taken and it is stated that the Japanese intend to lodge a strong protest with the Chinese authorities and demand the withdrawal of the branch political council from Peiping and the Blue Coat Society and Tangpu from North China.

Repeated to Nanking. By mail to Tientsin and Tokyo.

For the Minister:
LOCKHART

893.00/13098 : Telegram

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

NANKING, May 23, 1935—5 p. m.
[Received 5:05 p. m.]

116. 1. During the call today on Administrative Vice Minister for Foreign Affairs, Tang stated that in spite of difficulties over recent murder of eight [*two?*] Chinese editors in Tientsin and intramural penetration of Japanese troops reported in press May 21 and 22, conditions in North were becoming "more quiet," and he indicated that first-mentioned problem was now easily settled. However, both Suma of Japanese Embassy here and Director of Department of Asiatic Affairs of the Foreign Office, say that the Japanese military and other elements regard this matter seriously and are making their dissatisfaction over it known to the Chinese.

2. In regard to the reported Japanese troop movement toward Tsunhwa, Tang said that the Japanese had accused the Chinese authorities of conniving with Sun Yung-chin but now realized that the accusation was unjustified. Tang's explanation was that Sun, being a leader of a group of so-called volunteers, had been driven from Jehol through the Great Wall and approached Tsunhwa for lack of another convenient place to which to flee and that the Chinese authorities were attempting to effect removal of the group to some place outside the demilitarized zone. He added that the Tangku Truce denied the right of either armed Chinese troops or Japanese troops to enter the zone but the Japanese had misinterpreted the agreement to give themselves the right, following their withdrawal under its terms, to reenter the area in case of trouble there.

For the Minister:
ATCHESON

793.94/6973 : Telegram

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

NANKING, May 24, 1935—10 a. m.
[Received 11:20 a. m.]

117. Peiping's 211, May 23, noon and my 116, May 23, 5 p. m. Suma of Japanese Embassy stated last evening that while he had no detailed information there has undoubtedly been a "clash" near Tsunhua between Japanese troops from outside the Great Wall and Sun Yung-chin's men and that latter were being driven south. He seemed to adopt attitude that this is a "local matter" of little importance, constant trouble being characteristic of the demilitarized zone, but he made a point of mentioning that the murder of the two Chinese editors in Tientsin was a "very serious" one and it is alleged that the crimes were committed by the so-called Blue Shirts. . . . In any case it seems doubtful whether at this time Chiang or any responsible Chinese official would order the murder of Chinese editors on account of pronouncements favorable to a Sino-Japanese *rapprochement*.

For the Minister:
ATCHESON

762.94/58 : Telegram

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

BERLIN, May 25, 1935—1 p. m.
[Received May 25—9:22 a. m.]

111. An usually very dependable source claims that a secret German-Japanese military alliance has just been concluded and that 70 Japanese officers are coming to Germany for liaison purposes.

It will take some time to reach conclusions as to truth of this statement here, so submit it with all reserve.

DODD

893.00/13099 : Telegram

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

NANKING, May 27, 1935—10 a. m.
[Received 2:40 p. m.]

124. My 117, May 24, 10 a. m.

1. A Councilor of Government Ministry who has intimate knowledge of North China affairs states in confidence that the Peiping *gendarmerie* are responsible for the murder of the two Chinese editors

in Tientsin, that the Japanese have demanded of Hopei Provincial Chairman that the assassins who are three in number be handed over to Japanese concession, that General Yu Hsueh-chung, however, has no authority over the *gendarmerie* who are really under Chiang Kai-shek's control although Chiang would not have permitted the murders if he had known of the assassins' plans, and that dissatisfaction of the Japanese military with the affair constitutes a far graver problem than the activities of Japanese troops in the demilitarized zone.

2. According to some it is estimated the trouble in the demilitarized zone is not expected by the Japanese Government to affect adversely its program for *rapprochement* with China. A typically Japanese attitude is reflected in his further statement that the incident would not have occurred if the Chinese had not "irritated" the Japanese and that the refusal of the Kwantung Army to permit sufficient and adequately armed Chinese police or troops in the zone to maintain order is because their presence would be a menace to the small Japanese garrisons along the Great Wall. Other remarks indicate a belief on the part of the Japanese Embassy in the existence of a continuing possibility that Japanese troops will occupy North China under circumstances which in Japanese minds would make such occupation seem "necessary".

For the Minister:
ATCHESON

500.C001/1114

The Consul at Geneva (Gilbert) to the Secretary of State

No. 1274 Political GENEVA, May 27, 1935.
[Received June 4.]

SIR: I have the honor to refer to my despatch No. 1252 Political dated May 2, 1935 respecting the legal status of Japan's relations with the League following her definitive withdrawal, and particularly to the confidential Secretariat memorandum enclosed therewith [55] which deals with the representation of non-member states and their nationals on League committees, and to submit the following report on the action taken at the eighty-sixth session of the Council respecting Japanese representation on League bodies in accordance with the principles enunciated in that memorandum.

In my despatch under reference I discussed the question of Japanese representation on the Advisory Commission for the Protection and Welfare of Children and Young People, and on the Opium Advisory Committee. As the Department is aware, the Protection and

[55] Memorandum not printed.

Welfare Commission consists of two Committees, the Traffic in Women and Children Committee and the Child Welfare Committee. At their recent meetings both of these Committees expressed the wish that the Japanese Government be invited to continue its collaboration with the Commission. Accordingly when on May 23, 1935 the Council's *Rapporteur* presented his reports on the work of these Committees he proposed and the Council agreed without discussion to give effect to the wishes expressed by these Committees respecting Japanese representation.

At a private meeting of the Council on the same date the following note by the Secretary-General was considered:

"On May 20th, 1935, at the opening meeting of its 20th Session, the Advisory Committee on Traffic in Opium and Other Dangerous Drugs took note of the fact that the Japanese Government, as a consequence of Japan's withdrawal from the League, had ceased to be represented on the Committee. The Committee unanimously decided, on the proposal of the Representative of the United Kingdom, supported by the Representatives of Austria, China, France, India, the Netherlands, Poland, Spain and Sweden, to request the Council to take the necessary steps to ensure the continued representation of Japan on the Advisory Committee.

"The Chinese Representative, while supporting the proposal, made a reservation on the legal question concerning representation on League Committees of Governments which have withdrawn from the League. The Committee decided to inform the Council of this reservation, at the same time pointing out that this was a question which did not fall within the competence of the Committee."

The Council agreed to the suggestion that Japan continue to be represented on the Advisory Committee.

Up to the present time these are the only cases in which action has been taken respecting Japanese representation following her withdrawal from the League.

Respectfully yours, PRENTISS B. GILBERT

893.77/3003

The Consul at Tsingtao (Sokobin) to the Minister in China (Johnson)[56]

No. 30 TSINGTAO, May 27, 1935.

SIR: I have the honor to refer to this Consulate's confidential despatch No. 6 of December 22, 1934,[57] File No. 877/800, on the above subject.[58]

---

[56] Copy transmitted to the Department without covering despatch; received June 29.

[57] Not printed.

[58] "Redemption by the Chinese of the Tsingtao–Tsinan (Kiao–Tsi) Railway."

Early this month there appeared a report in a local Chinese daily newspaper to the effect that the Tsingtao–Tsinan Railway's fund for the redemption of the Gold Yen 40,000,000 Chinese treasury notes held by the Japanese Government now amounted to $7,000,000 Chinese currency and that because the rate of exchange is so favorable to China no great difficulty would be encountered in making arrangements at an early date for the payment of the entire issue of treasury notes.

This Consulate now learns from a very well informed source that correspondence and representations made by the Tsingtao–Tsinan Railway to the Chinese Government at Nanking in regard to the redemption of the treasury notes have revealed an attitude on the part of the government which is amazing. In brief the railway administration has been informed that the Central Government feels that it is futile for the railway or the government to be concerned with the accumulation of a fund for the payment of the Yen 40,000,000 in notes because redemption or no redemption, the railway is bound to fall into the hands of the Japanese, and accordingly the Government has suggested that the reserve already in hand be used for other purposes.

The Consulate repeats that this information comes from a most reliable source.

If the report is correct that the Chinese Government is not concerned with the redemption of its own note issue for the Tsingtao–Tsinan Railway, payment of which falls due in 2½ years, it is but an example of the ineptitude of Chinese officialdom in handling problems which require statesmanship and diplomacy of the highest order. To give up the Tsingtao–Tsinan Railway means to give up Shantung and to give up Shantung means to give up in time all of China lying north of the Yangtze River.

Whatever may be Japan's design and intentions on the territorial or administrative integrity of China, all that is required of China to put herself in a sound legal position over and beyond her sovereignty is the payment of a sum which today is absurdly small for the Chinese Government. Yen 40,000,000 at the current rate of exchange is equivalent to less than $28,000,000 Chinese Yuan, and equivalent to less than 20,000,000 Chinese silver dollars.

The Chinese Eastern Railway was the object of much concern by the powers at the Washington Conference in 1922. It has now been lost to China.

The Tsingtao–Tsinanfu Railway was the object of similar concern at the same time. Its transfer to China was a detail in that great

plan to secure peace in the Far East. That plan has received some blows; will China now through incapacity to take views other than those held by a military clique deal a blow to peace in the Pacific and to itself?

Respectfully yours, SAMUEL SOKOBIN

793.94/6978 : Telegram

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

PEIPING, May 28, 1935—2 p. m.
[Received May 28—11 : 43 a. m.]

223. Legation's 211, May 25 [23], noon. Yin Ju-keng, administrative inspector for the Miyün-Chihsien area in a press interview yesterday stated that the bandits in the Tsunhua region under Sun Yung-chin have been completely suppressed by the combined operations of Japanese troops and by the special police and that the Japanese have begun to withdraw to points along the Wall. He was unable to confirm the report that Sun Yung-chin had been killed.

It is the consensus of opinion in North China that the Japanese incursion is purely a local movement with bandit suppression as object and that it has no relation to the general Sino-Japanese situation or to the murders referred to in the Legation's 212, May 23, 2 p. m.

Repeated to Nanking.

For the Minister:
LOCKHART

793.94/6979 : Telegram

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

PEIPING, May 28, 1935—4 p. m.
[Received May 28—3 : 50 p. m.]

224. 1. A highly placed Chinese in Government service here is authority for the statement that Japan intends to send a high commissioner to China to meet a special commissioner appointed by China for the specific purpose of negotiating a *rapprochement*. It is stated that this [is] in the nature of a concession to the military on the part of the Government at Tokyo the military having protested the elevation of the Japanese Legation to an Embassy and that a high commissioner would at least temporarily eclipse the Ambassador.

2. The same highly placed official states that the Japanese are pressing the Chinese to adopt measures to prevent assassins from entering the Japanese Concession at Tientsin and that there have even been threats demanding an extension of the demilitarized zone, the abolition of the branch policy of the Council at Peiping and the abolition of the Tang Pu at Tientsin unless some punishment is meted out to those concerned with the murders referred to in the Legation's 212, May 23, 2 p. m. and/or unless some guarantee can be given that there will be no recurrence of such affairs. It is stated that the Japanese have communicated their views in writing to Chairman Yu Hsueh-chung at Tientsin.

Repeated to Nanking.

For the Minister:
LOCKHART

765.84/341 : Telegram

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

[Extract]

Moscow, May 29, 1935—11 p. m.
[Received May 30—6:10 a. m.]

215. (Section 2 of telegram No. 214.[59]) Litvinov also said that he had succeeded in convincing the Chinese that the Soviet Government had only commercial designs on Sinkiang. He said that he could inform me most confidentially that the Government of Sinkiang had asked the Soviet Government for assistance in establishing a Soviet form of government in Sinkiang. He said that the Soviet Government's reply had been the same as the reply to a similar request from Outer Mongolia. He added that Sinkiang was not yet ripe for a Soviet Government or communism and that the Soviet Government greatly preferred to have Sinkiang as a buffer state under its economic control.

Litvinov denied the statement made to me by Dr. Yen, the Chinese Ambassador, that the guard of the Chairman of the Provincial Council of Sinkiang was composed of former soldiers of the Red Army.[60]

. . . . . .

BULLITT

---

[59] Vol. I, p. 283.

[60] See despatch No. 540, April 23, from the Ambassador in the Soviet Union, p. 121.

793.94/6983 : Telegram

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

PEIPING, May 30, 1935—2 p. m.
[Received May 30—1 p. m.]

227. Reference second paragraph of Legation's 224, May 28, 4 p. m., the following statement was issued early last night through Rengo by the Japanese Military Attaché's office in Peiping.

"Four o'clock this afternoon Colonel Sakai, Chief of Staff of the Japanese Army in North China, accompanied by Major Takahashi, Military Attaché to the Japanese Embassy at Peiping, called on General Ho Ying-chin, chairman of the Peiping branch of the Military Council, and gave him a strong warning to the following effect in connection with the unsatisfactory conditions in North China.

Conspiracies carried into effect repeatedly in "Manchukuo" by persons directed by the Chinese authorities; assistance given by them to the Chinese volunteer forces near the Great Wall; and anti-Japanese terrorist activity at Tientsin are interests [*sic*] of destruction of the Tangku-Armistice Agreement and the reflection of Chiang Kai-shek's anti-Japanese policy. What makes the situation very serious is the fact that these movements are set in motion with Tientsin and Peiping as the basis of operations by the mischief makers. Should this state of affairs be allowed to keep up the Japanese Army would be confronted with the necessity of again advancing beyond the Great Wall, and further of the necessity of including Tientsin and Peiping in the demilitarized zone.

The murder of the two Chinese editors Hu and Pai in the Japanese Concession is moreover an act of trampling down upon the Boxer Protocol,[61] and out-and-out antiforeign action as well as a challenge to the Japanese Army. Should such action be allowed to be kept up untrammeled the Japanese Army would be forced to resort to self-defense action based on the right reserved by the armistice treaty, Chinese being held responsible for all its consequences."

It is significant that today's *Peiping and Tientsin Times* states that proposed removal of Provincial Government will be advanced from July 1 to June 3. It is stated that some officials are proceeding there today.

The same newspaper reports that group of Japanese soldiers fully armed and travelling in motor trucks visited the native city of Tientsin yesterday and made a halt before Hopeh Provincial Government building and photographed the entrance to the building.

There are increasing signs that the Japanese are utilizing Tientsin murders as a means of forcing resignation of Yu Hsueh-chung or at

[61] Signed at Peking, September 7, 1901, *Foreign Relations*, 1901, Appendix (Affairs in China), p. 312.

least hastening the removal of the Provincial Government to Paoting. There is a strong probability that the pressure involves removal of other officials from the political scene in the same Peiping area.

Repeated to Nanking; to Tientsin and Tokyo by mail.

For the Minister:
LOCKHART

793.94/6984 : Telegram

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

PEIPING, May 30, 1935—8 p. m.
[Received May 30—1:30 p. m.]

228. Legation's 227, May 30, 2 p. m. From an authoritative source it was learned this afternoon that the Japanese representations were in the nature of a severe warning or a threat and that Ho Ying-chin requested that the Japanese observations be reduced to writing so that they might be referred to Nanking; this has now been done by means of an *aide-mémoire*. Chinese official circles are greatly disturbed. There is the possibility that Huang Fu may return to Peiping in which event Yu Hsueh-chung's position will become even less tenable than at present. There is reason to believe that the solution of the difficulty will rest largely on the course taken by Yu Hsueh-chung and that if satisfactory assurances of an amelioration of the situation are not forthcoming *démarche* will be made or other drastic steps taken.

Repeated Nanking; by mail to Tientsin and Tokyo.

For the Minister:
LOCKHART

793.94/6985 : Telegram

The Consul at Tientsin (Berger) to the Secretary of State

TIENTSIN, May 31, 1935—noon.
[Received May 31—6:50 a. m.]

The Japanese garrison at Tientsin have been unusually active for the past 3 days; sending soldiers to the various Chinese Government offices to make photographs and to be generally obnoxious. One company of Japanese soldiers, fully equipped accompanied by armored car, light artillery and machine gun units, spent yesterday deployed along the street outside the office of the provincial chairman. It is obvious that the Japanese military are being deliberately provocative but the Chinese have thus far avoided giving cause for overt action. Num-

bers of Chinese are leaving the Chinese city for the British Concession today. Repeated to Peiping and Nanking.

BERGER

761.948/127 : Telegram

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

MOSCOW, May 31, 1935—1 p. m.
[Received May 31—10:04 a. m.]

217. Following statement issued by Tass under date of May 30:

"The Japanese Ambassador M. Ota visited Assistant People's Commissar of Foreign Affairs B. S. Stomonyakov on May 25 and handed him a note in which the Japanese Government on the basis of the decision contained in paragraph 2 of article No. 15 of the Fishing Convention signed January 23, 1928, expressed its desire to revise the said convention. The Japanese Government also stated that it wished to begin discussions on such a revision immediately.

Stomonyakov invited the Japanese Ambassador on May 29 to visit him and advised M. Ota that the Soviet Government has taken note of the desire of the Japanese Government to revise the Fishing Convention. He expressed his willingness to begin discussions along diplomatic lines and has intrusted the matter to Kozlovski, head of the Second Eastern Department of the People's Commissariat of Foreign Affairs."

In conversation yesterday Sakoh, Japanese Counselor of Embassy, stated that unexpected turn for worse indicated that negotiations might drag on for over a year.

BULLITT

893.00/13105 : Telegram

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

NANKING, May 31, 1935—1 p. m.
[Received 1:55 p. m.]

129. Minister of Finance Kung has informed me that he views the situation in North China seriously. Kung who in the past has shown a tendency to take an alarmist view said that the Japanese military claim that the Chinese Government is responsible both for the assassination of the two pro-Japanese Chinese editors in the Japanese Concession and for the activities of Sun Yung-chin; that the Japanese military intend to employ these charges as the basis for demands which will mean the removal of Chinese control of the Peiping-Tientsin area; that the Japanese military have taken advantage of the assas-

sinations and the activities of Sun because they believe that through using these two incidents they will be able to discredit the Tokyo cabinet, cause its resignation, and effect the formation of a military cabinet.

Kung stated that the Japanese charges are spurious. With regard to the assassinations Kung said that there were three possibilities:

(1) That a secret patriotic association may be responsible, adding that the postal censorship had discovered a document allegedly published by such a society claiming responsibility for the assassinations and adding that its next two pro-Japanese Chinese victims would be Ho Ying-chin and Huang Fu;
(2) That the assassinations may have been engineered by Japanese for the purpose of making possible new demands with regard to North China; and,
(3) That Communists may have committed the murders for the purpose of creating trouble which would draw Chiang Kai-shek's attention from his campaign against Communists in West China. With regard to the Sun activities, Kung said that the Japanese claimed that they had found in his possession a document signed by Ho Ying-chin creating him an officer and that he had been given assistance by a Chinese magistrate. Kung said that the document must be a forgery; that the magistrate, being a civilian, could do nothing else but render assistance to an armed force; and that Sun was acting as he did to avenge the murder of members of his family by Japanese.

Kung did not inform me specifically what the Japanese military want in North China, but there were reports last autumn that they desired to effect the removal from the Peiping–Tientsin area of all Chinese troops. There have also been recent reports:

(1) That some of the Japanese military were opposed to the raising of the Japanese Legation to an Embassy;
(2) That they have been skeptical of the efficiency of the Japanese Foreign Office policy of gaining Japanese encouragement in China through improving Sino-Japanese feeling; and
(3) That the military would be content to watch only for a limited time the direction of Japanese policy in China by Japanese civilians.

Information reported as emanating from Yu Hsueh-chung has been received to the effect that the Japanese military have admitted to him that recent penetration of Japanese troops into the truce zone, although ostensibly against Sun Yung-chin, was chiefly for the purpose of establishing a new precedent for future incursions; that they informed him that their intention was to proceed shortly with the Manchurianization of a buffer state in North China; and that they formally offered him the governorship of a new "special military area" to be created there.

JOHNSON

793.94/6988 : Telegram

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

PEIPING, May 31, 1935—4 p. m.
[Received May 31—3 : 58 p. m.]

230. Legation's 227, May 30, 2 p. m. and 228, May 30, 8 p. m.

1. A detachment of about 100 armed Japanese soldiers again "visited" the provisional [*Provincial*] Government headquarters at Tientsin yesterday and remained there about half an hour but did not enter the building. Same detachment "visited" Public Safety Bureau at Tientsin and another detachment proceeded to a point outside Japanese Concession, said to have been near Peiyang University and fired several rounds from trench mortars. These activities are unquestionably a part of Japanese plan either to force resignation of Yu Hsueh-chung or speed removal of provisional headquarters to Paotingfu. It is understood removal headquarters now proceeding.

2. General Umetzu, commandant of troops in North China with headquarters at Tientsin, is now in Hsinking conferring with Japanese Minister of War Hayashi and with General Minami. Colonel Sakai only recently returned to Tientsin from a staff conference at Tokyo.

3. From an authoritative source it is learned that a Japanese army officer of the rank of Colonel arrived 2 or 3 days ago by plane at headquarters of Teh Wang, General Secretary of Mongolian Autonomous Government, and demanded that health officer be removed from Pailingmiao [to?] Peihsingmiao, a point north of Dolonor and near Chahar-Jehol border. It is further stated Japanese officer demanded that Teh Wang install radio station at his headquarters and that he [accept?] special mission (possibly means adviser) at his headquarters. Teh Wang regarded matter of such urgency that he left for Peiping and arrived here today for conference with Ho Ying-chin.

4. Government circles continue to be greatly perturbed by the developments of the past few days, the full import of which is not yet clear but a part of which is unmistakably a desire to remove Yu Hsueh-chung as previously reported.

Repeated to Nanking by mail, to Tokyo and Tientsin.

For the Minister:
LOCKHART

793.94/6987 : Telegram

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

NANKING, May 31, 1935—5 p. m.
[Received May 31—1 : 15 p. m.]

133. I hear from an official source that the Japanese demonstration yesterday before the Provincial Government headquarters in Tientsin

was accompanied by "advice" that the Provincial Government move to Paotingfu without delay, that similar warning has been given Ho Ying-chin in respect to the Peiping Military Affairs Council, and that both Yu Hsueh-chung and Ho are taking steps to comply.

For the Minister:
ATCHESON

793.94/6986 : Telegram

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

TOKYO, May 31, 1935—7 p. m.
[Received May 31—10 : 36 a. m.]

115. 1. Press reports substantiated by the War Office indicate that certain military demands, the details of which are not stated, have been made on the Chinese Government by the Japanese military authorities in Peiping and perhaps Nanking as well. The Japanese state that they have evidence that the Nationalist Government has instigated violations of the Tangku Truce and disturbances in Manchuria. The demands are said to include the dismissal of General Yu Hsueh-chung, Chairman of the Hopei Provincial Government, the withdrawal of his and other Nationalist troops from the Tientsin-Peiping area, and the suppression of anti-Japanese activities, including the incitement of disturbances in "Manchukuo". The Japanese Army is believed to envisage the inclusion of Tientsin and Peiping in an enlarged demilitarized zone.

2. The Kwantung Army will be reenforced during the summer by a division and a cavalry brigade to be stationed in the vicinity of Mukden but the scattered Japanese brigade in Jehol has not been increased. The Japanese Army apparently believes that the Chinese will accede in a satisfactory measure to the Japanese demands without the use of force. Presumably the Japanese Army is determined as a minimum to eliminate from the vicinity of Manchuria all supporters of the Young Marshal.[62]

3. My British colleague, on the basis of his sources of information, is inclined to regard this situation as ominous, having in mind the suspicious and recently openly hostile attitude of certain sections of the Japanese Army toward the efforts of the Foreign Office to bring about a "reconciliation" with China, and his impression that these military elements are becoming increasingly restive at government control. The Embassy, including the Military Attaché, does not at present find good grounds for apprehension of grave or critical developments.

Repeated to Peiping. GREW

---

[62] Chang Hsueh-liang.

761.94/834

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

No. 1331 TOKYO, May 31, 1935.
[Received June 15.]

SIR: I have the honor to refer to despatch No. 500 of March 25, 1935, from the Embassy in Moscow [63] on the subject of Soviet-Japanese Relations in which the belief of Mr. Demaree Bess [64] and Mr. Walter Duranty [65] that "considerable progress is being made between the Soviet Union and Japan in respect of a *détente* and a mutual understanding with regard to their respective interests" was reported to the Department. Despite recent improvement the Soviet-Japanese situation does not appear fundamentally to be entirely satisfactory to Japanese military leaders, especially in the Kwantung Army. As this Embassy has reported before, the Japanese Government does not think or act as a unit and, even in the special field of the Foreign Office, the attitude of the military limits the freedom of action of Mr. Hirota and his colleagues. At the present time it is perhaps pertinent to discuss the attitude of the military towards the USSR in so far as it has been revealed.

Although the Japanese Army is genuinely motivated by idealistic sentiments which envisage an exalted role for the Empire, the army's interest in Soviet-Japanese relations falls into two general categories. One of these is the conventional role of an army, the problem of defending the national territories and dependencies. The other derives from the circumstance that through its constitutional prerogative of direct appeal to the Throne the army occupies a position of such weight and independence that it may have and, in certain instances, may carry into effect (as it did in 1931) policies quite separate from those conceived in the Foreign Office. From this fact arises a second, extraordinary role, largely political in nature, which devolves from the army's efforts to preserve its preeminent position in the national life.

In so far as the conventional role of the army is concerned, the defense of "Manchukuo" against the USSR is a technical and strategic problem. The army is now responsible for the defense of the whole area of Manchuria as well as the Japanese Empire and this situation presents certain new aspects. For the first time there is no buffer region militarily speaking, between Russia and Japan; for the first time there is a long continental frontier. Before leaving Tokyo on his present trip to Manchuria the War Minister, General Hayashi, is

[63] Not printed.
[64] Moscow correspondent of the *Christian Science Monitor*.
[65] Special correspondent of the *New York Times*.

reliably reported to have stated that one of the objectives of his trip was to study the problem of the defense, delimitation, and demilitarization of this frontier. Incidentally he told one of the local correspondents of the American press that he favored the reduction of Soviet troops along the border to the strength of the Japanese forces on the Manchurian side. Accordingly, were the Japanese Army content to limit its activity to the military exigencies of the Soviet-Japanese-"Manchukuo" situation, a *détente* or pact such as Messrs. Bess and Duranty seem to envisage would not be faced with extraordinary difficulties. In fact it would tend to facilitate the discharge of the army's duty of ensuring the defense of "Manchukuo". However, the maintenance of the army's traditional position within Japan as well as its present predominance within the Government complicates the situation.

Turning then to the extraordinary role of the army in Japan, there are three general factors of perennial importance which render unlikely the acceptance by the army of any pact or mutual understanding with Soviet Russia. They tend to align the army against the Foreign Office; they made it impossible for the Foreign Office to accept Russia's offer of a non-aggression pact in 1931; and they greatly influenced Mr. Hirota in his choice of a policy of settling specific Soviet-Japanese problems one by one. The three factors are:

1. The annual compilation of the budget is at hand and it is said that the army intends to seek an even larger appropriation for 1936–1937 and thereby to improve the present military machine.
2. The perpetuation of the predominant position of the army in Japanese national life depends in some measure upon the existence of a potential enemy or menace, and Russia is the traditional and logical country to fulfill this role.
3. The army does not intend to bind itself by restrictions which might limit any course of action deemed advisable in future; it remains suspicious of the USSR.

To justify its position in accordance with the foregoing three factors one would expect the appearance of anti-Soviet propaganda. The following items are pertinent in this connection:

On April 23 the *Chugai Shogyo* asserted that the army had sounded a warning against excessive optimism for the future of Soviet-Japanese relations merely because of the transfer of the Chinese Eastern Railway. The article pointed out that the Soviets were not withdrawing troops from the Far East to Europe despite the settlement of the railway question, remarked on the increased capacity of the transportation system of the USSR in the Far East through double tracking, discussed the progress of Russian heavy industry producing war material, and charged the Soviets with seizing the delta between the Amur and Ussuri Rivers and erecting strong

fortifications there. On the same day Major General Itagaki, Vice Chief of Staff of the Kwantung Army, told newspaper men that the Soviet menace had not yet passed. On April 25 a rumor was given wide publicity that the Soviet authorities are shortly to commence construction work on a new railway linking Chita and Urga, a move which the army is said to interpret as indicative of a more aggressive policy in Outer Mongolia. On April 28 another article was circulated by Rengo and Nippon Dempo in which certain views allegedly held by the military were set forth. According to this article it was stated that a new proposal for a non-aggression pact on the part of the USSR would meet with no more favorable reception than did the original proposal of December 1931. It was further claimed that the military had discovered that the Soviets were spending some of the proceeds of the sale of the CER for the expansion of their influence in Sinkiang, that many communists formerly in North Manchuria had now been ordered to North China to foment trouble, and that the military preparations of the USSR were more intensive than ever and pointed to the danger of aggression against "Manchukuo". On May 8 a Rengo despatch was circulated which claimed that the defense of Vladivostok had been greatly improved, that the Soviets were concentrating their efforts on construction of submarines for the Far Eastern fleet, and that the number of Russian army planes in active service in the Far East now exceeds 800. On May 17 a despatch from Hsinking reported that information current in "certain circles" (i. e. the Kwantung Army) indicated that the Soviet authorities had appropriated proceeds of the sale of the CER for construction of a new network of railways linking Siberia with Sinkiang and Outer Mongolia.

More important evidence of the attitude of the Japanese military is the recent report concerning a new pamphlet which, according to a Rengo article of May 13, has been in course of preparation by the War Office to deal with the existence of the Soviet menace. According to the report 100,000 copies of this pamphlet are to be distributed throughout the country. It is said that the pamphlet is divided into a historical analysis of the Russian invasion of the Far East, a presentation of the extent of the Soviet military preparations in this region, and an argument proving that a state of crisis still exists in Soviet-Japanese relations.

The foregoing propaganda is fairly clear indication that, in certain respects at least, the Japanese Army is displeased with the striking improvement in Soviet-Japanese relations; that really cordial relations would not be welcomed by the military; and that the negotiation of a general pact with the USSR remains unlikely. In this connection the tenet held by so many military men in Japan that

Russia must some day be pushed back to Baikal should be remembered. In view of the attitude of the Japanese military therefore it may be stated that Mr. Hirota's policy of settling individual problems with the Soviet Union one by one is the only one open to him. Moreover it may be stated that no reason is yet seen to modify the belief previously expressed* that Soviet-Japanese relations are entering a phase less acute because less vital to Japan. The force of Japanese activities appears to be, for the time being at least, directed elsewhere.

Respectfully yours, JOSEPH C. GREW

CHAPTER III: JUNE 1–JULY 31, 1935

Increasing political penetration of North China by Japanese military through pressure on Hopei and Chahar authorities; British inquiry as to possibility of Anglo-American representations at Tokyo, June 15; Foreign Minister Hirota's assurances to British Ambassador, June 18; recurrence of incidents on "Manchoukuo"-Soviet frontier; Ambassador Yen's report of renewed Japanese demands, July 26

793.94/6997 : Telegram

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

PEIPING, June 1, 1935—4 p. m.
[Received June 1—2:35 p. m.]

233. Legation's 230, May 31, 4 p. m.

1. General Yu Hsueh-chung, who came to Peiping from Tientsin yesterday afternoon, has given out an interview in which he bitterly assails the Japanese military for their conduct of the past few days which he attributes to their desire to force his resignation and the removal of Provincial Government to Paoting as well as to remove all other officials who are opposed to Japanese ambitions in North China.

2. Removal of provincial headquarters to Paoting is said to be proceeding. Possibility of Huang Fu's return to Peiping would be greatly enhanced by Yu Hsueh-chung's resignation or even by removal of headquarters to Paoting.

It is believed Japanese desire Huang Fu's return here.

3. From a reliable Government source it is confirmed that Japanese made no actual demands but they let it be known that they desired, (1) immediate removal of provincial government to Paoting; (2) dissolution of Peiping and Tientsin Kuomintang and abolition of all other political organizations in North China; (3) removal of Third Regiment of gendarmes from Tientsin and similar organizations from Peiping; (4) dismissal of Tientsin Mayor and Chief of Bureau of Public Safety there and substitution of officials friendly to Japanese.

*Embassy's despatch No. 1236, April 5, 1935. [Footnote in the original; despatch printed on p. 106.]

4. A responsible and highly placed Chinese military official is authority for the statement that the Japanese intend to bring two regiments into the demilitarized zone on or before June 11, the movement being in the nature of a notice to Ambassador Ariyoshi, who will arrive in China June 12, that the Kwantung military and not the Japanese Foreign Office are responsible for affairs in North China.

5. Still another reliable Chinese source states that the situation is being shaped for starting a drive for the recognition of "Manchukuo" by China after the arrival of Ambassador Ariyoshi and the establishment of air mail service between China and "Manchukuo".

6. It is hoped situation will be relieved at least temporarily by removal of Provincial Government to Paoting and changes in present government personnel, some of whom Japanese have long disliked.

Repeated to Legation at Nanking and Tokyo. By mail to Tientsin.

For the Minister:
LOCKHART

793.94/6989 : Telegram

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

TOKYO, June 1, 1935—6 p. m.
[Received June 1—8 : 50 a. m.]

117. Embassy's 115, May 31, 7 p. m. In attempting to analyze the North China situation from this end with the meager information available two points present themselves to the Embassy as significant.

1. In whatever way the present dispute ends the result will mean more definite political control of the Peiping-Tientsin area by the Japanese military. Chinese accession to the reported Japanese demands will *ipso facto* concede this control; if the Chinese refuse to accede, the Japanese military if they carry out their threats will take actual control of the area.

2. The Japanese military apparently intend to take charge of Japanese diplomacy on the Asiatic mainland. So far as this Embassy is aware the Foreign Office was not consulted in regard to the recent *démarche* and none of the approaches to the Chinese in connection with the Japanese demands were made through the Japanese diplomatic mission in China. There is good reason to believe that certain sections of the Army were distinctly irritated at the action of the Foreign Office in raising the Legation to the status of an Embassy at this moment and it is also evident that the Hirota policy of conciliation with China is believed by them to be unsound in view of the alleged continued anti-Japanese activities in China. In this connection the schism between the civil and military elements in the Government may become progressively more marked.

Repeated to Peiping.

GREW

793.94/6992 : Telegram

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

PEIPING, June 1, 1935—7 p. m.
[Received June 1—2 : 50 p. m.]

235. Reference Legation's 233, June 1, 4 p. m. and previous. Following telegram has been received from American Consul General at Mukden:

"June 1, 3 p. m. Local press today contains interview issued yesterday afternoon by chief of staff Kwantung Army stating that the North China administration and the Nanking Government are responsible for the conditions in the demilitarized zone which have repeatedly disturbed the peace of Jehol Province and that it is clear that the bases whence the volunteers receive their guidance are in the Peiping-Tientsin area. He indicated that the Kwantung Army might be obliged to take measures for its self-defense, and that China would be entirely responsible for the consequences.

I called this afternoon on Major Tajima, acting chief of the Mukden military mission who did not throw much further light on the subject except to say that he understood that the Japanese demands provided for the inclusion of Peiping and Tientsin in the demilitarized zone. He believed that the Chinese would accept these demands and he therefore anticipated no further action by the Kwantung Army."

For the Minister:
LOCKHART

793.94/6998 : Telegram

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

PEIPING, June 2, 1935—2 p. m.
[Received June 2—6 : 52 a. m.]

236. Legation's 233, June 1, 4 p. m., paragraph 3. From a responsible foreigner in the confidence of Chinese officials it is confirmed today that Chiang Kai-shek has telegraphed Ho Ying-chin ordering immediate disbandment Third *gendarmerie* with headquarters at Tientsin. Some of these form bodyguard for Ho at Peiping. It is also learned that following leaders of the Tangpu have precipitately fled from this area: Chen Hsih-chuan, Chen Hai-hsien, Chen Tzu-ming . . . and Tsao Kwang-wu. Same authority states one train containing archives and part of personnel Provincial Government left Tientsin yesterday for Paoting and that another train will leave today. This has not yet been confirmed. It is also stated that Nanking authorities instructed Ho Ying-chin to request Yu Hsueh-chung's resignation but that Yu has refused to resign. Reported but not con-

firmed that Yu is leaving immediately for Hankow to consult Chang Hsueh-liang and possibly Chiang Kai-shek.

Repeated to Nanking and Tokyo.

For the Minister:
LOCKHART

793.94/6999 : Telegram

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

PEIPING, June 3, 1935—5 p. m.
[Received June 3—10:30 a. m.]

241. Legation's 233, June 1, 4 p. m., paragraph 4.

1. Inasmuch as it is now learned that a large contingent of Japanese troops destined for the Tientsin garrison are expected to land at Chinwangtao on or about June 12 to replace a similar number whose term of duty on that station has expired it is possible that the Chinese military official referred to has confused reports of a fresh invasion with this movement which is a normal replacement and occurs every spring.

2. The two trains of archives and personnel of the Provincial headquarters, referred to in the Legation's 236, June 2, 2 p. m. proceeded to Paoting but Yu Hsueh-chung is believed to be still in Tientsin.

3. The situation has been partially ameliorated through the Chinese action as set forth in the Legation's 236, June 2, 2 p. m. but there still remain differences which may lead to further confusion.

Repeated to Nanking and Tokyo.

For the Minister:
LOCKHART

793.94/7002 : Telegram

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

NANKING, June 4, 1935—noon.
[Received 8:45 p. m.]

136. 1. A foreign adviser to the Chinese Government having close connections with high officials including Chiang Kai-shek informs me that Chinese Government leaders view the current Japanese affair in North China as being primarily directed against Chiang because, in spite of his conciliatory pronouncements concerning a Sino-Japanese *rapprochement*, the Japanese consider him the greatest individual obstacle to the accomplishment of their aims and have marked him down as a special object for attack. This view is borne out by various evidences of bitterness against Chiang on the part of the Japanese military as seen in press statements issued by Takahashi and others and by remarks made in conversation by Suma of Japanese Embassy. The

immediate objects of the Japanese, in the informant's opinion, are those which Rengo's and other reports have contained, namely, the elimination from North China of Yu Hsueh-chung, Ho Ying-chin, Tangpu representatives and all official or semi-official elements in North China which the Japanese believe to be actively inimical to their interests in that region.

2. The administrative Vice Minister of Foreign Affairs stated yesterday that he was sure an amicable settlement of the North China situation would be achieved and other officials of the Ministry have made similar statements. These statements indicate, as exemplified in the hurried steps to remove the Hopei Provincial Government from Tientsin to Paotingfu, that the Chinese are complying with the "advice" which the Japanese military in North China have so harshly tendered them.

For the Minister:
ATCHESON

793.94/7001 : Telegram

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

PEIPING, June 4, 1935—5 p. m.
[Received June 4—1:25 p. m.]

242. Legation's 236, June 2, 2 p. m.

1. Yu Hsueh-chung left Tientsin yesterday afternoon for Paoting.

2. Hankow Consulate telegraphs Chiang Kai-shek expected there end of week and that Chang Hsueh-liang flew to Chengtu yesterday.

3. Despatch from Tsinanfu Consulate, received today, states Japanese Consul General there pressing for Mayor's dismissal and the removal of Chang Hung-lieh, Commissioner of Reconstruction. Han Fu-chu is stated to be much concerned over these developments and it [*he*] is disposed to believe that they have some relation to the general North China ambitions of the Japanese.

4. Several changes in personnel of political organizations here have already occurred and it is predicted more are to follow.

Repeated to Nanking and Tokyo.

For the Minister:
LOCKHART

793.94/7004 : Telegram

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

NANKING, June 5, 1935—10 a. m.
[Received 11 a. m.]

139. My 136, June 4, noon. It is reported that Executive Yuan has approved: The dismissal of Chiang Hsiao-hsien from command-

ership of third group of Peiping *gendarmerie*; appointment of Wang Keh-min as new Mayor of Tientsin (Wang is senior councilor of the Peiping Political Affairs Readjustment Committee and member of former Anfu Party who was Minister of Finance in 1924); and the appointment of Shang Chen, an adherent of Yen Hsi-shan and chairman of Hopei in 1928, to be Peiping-Tientsin garrison commander. The same report states other officials will be changed, that the Tangpu offices in Tientsin area are being removed to Paotingfu with the Provincial Government, and that official and semiofficial organizations to which the Japanese object will be disbanded under guise of financial necessity. It is also reported that Chiang Kai-shek, Wang Ching-wei, Chang Hsueh-liang, Yu Hsueh-chung and other leaders will meet in Hankow on June 10th to discuss North China situation and attempt to formulate a definite future policy in respect to that region. Copy to Hankow by mail.

For the Minister:
ATCHESON

793.94/7005 : Telegram

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

PEIPING, June 5, 1935—2 p. m.
[Received June 5—11:10 a. m.]

243. 1. Resignation of Director of Military Training under Peiping Military Council and of the commander of the Third *gendarmerie* Colonel Chiang Hsiao-hsien, who is a nephew of Chiang Kai-shek have been accepted. Mayor Chang Ting-ao of Tientsin has been relieved of office. Wang Keh-min, a close friend of Huang Fu and said to be choice of Japanese has been appointed to succeed Chang Ting-ao. Other political reorganizations are being effected.

2. Removal of Provincial headquarters to Paoting now practically completed. Believed that Yu Hsueh-chung's proposed change or dismissal or at least transfer to another province will shortly occur. Third *gendarmerie* and Yu Hsueh-chung's troops are being removed to Paoting, and Tientsin has been raised to a special municipality.

3. The expected return of Chiang Kai-shek to Hankow is believed to portend important conferences and decisions of importance bearing on future Sino-Japanese relations in North China.

5 [*4?*] Sakai and Takahashi called again yesterday on Ho Ying-chin at which time it is said questions of murders in Japanese Concession at Tientsin and activities of Lun Yung Chintz Hwa[66] were further discussed and inquiries made as to extent which Chinese have responded to recent "warning". Inasmuch as there has already been a very substantial response as indicated in the Legation's telegraphic

[66] The so-called "Blue Shirts."

reports of last few days and by paragraphs 1 and 2 of this telegram it is assumed that yesterday's conference was satisfactory especially since there has been no report to the contrary thus far. Surface indications at least denote that the situation for the time being is relieved. There are still occasional flights of Japanese airplanes over Peiping.

Repeated to Nanking, Shanghai and Tokyo.

For the Minister:
LOCKHART

793.94/7003 : Telegram

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

TOKYO, June 5, 1935—8 p. m.
[Received June 5—10:20 a. m.]

119. Embassy's 115, May 31, 7 p. m., and 117, June 1, 6 p. m.

1. The North China situation continues to be featured in the Japanese press but with less emphasis. The Foreign Minister is quoted in the press as attributing the difficulties in North China to local Chinese leaders specifically exonerating Chiang Kai-shek and favoring the localization of the issue. The Premier and the Foreign Minister in separate audiences with the Emperor are reported to have counselled moderation. Subsequent War Department releases indicate less intransigence than first statements although the Embassy has been unable to learn that the Army has reported to the Emperor in audience. The Army usually reports direct and not through the Premier.

2. From what can be learned here, particularly from Japanese Army officers, by the Military Attaché the points upon which the Japanese Army will insist are the replacement of Yu Hsueh-chung and his entourage, the withdrawal of Nationalist troops from North China and the suppression of organized anti-Japanese propaganda. The Japanese apparently expect the Chinese reply to be decided at a forthcoming conference of Chinese leaders at Hankow.

Repeated to Peiping.

GREW

793.94/7136

The Consul General at Canton (Spiker) to the Minister in China (Johnson)[67]

CANTON (En route from Hong Kong to Shanghai), June 5, 1935.

SIR: With reference to this office's reports concerning the recent visit to Kwangtung and Kwangsi of Major General Doihara for the

[67] Copy transmitted to the Department by the Consul General without covering despatch; received June 29.

purpose of making representations on behalf of the Japanese military party to the Kwangtung and Kwangsi leaders concerning Sino-Japanese relations, I have the honor to submit the following information based chiefly on that which was supplied to me in confidence just prior to my departure from Canton, by Dr. Kan Chieh-hou, Special Delegate of the Ministry of Foreign Affairs for the Provinces of Kwangtung and Kwangsi, in relation to the visit paid to the Kwangtung and Kwangsi provincial leaders by Mr. M. Matsumoto during the period May 27th to June 4th inclusive. Mr. Matsumoto was described in the Hongkong and Canton press as the "Envoy-at-large" of the Japanese Foreign Office while Dr. Kan informed me that Matsumoto was not only a special representative of the Foreign Office but was also *persona grata* with the Japanese War Office which considered him a dependable and impartial inquirer and observer—whose findings would be worthy of due consideration.

In considering Mr. Matsumoto's visit, it is particularly interesting to note that upon his arrival in Canton on May 27th, he apparently completely ignored the Kwangtung leaders yet promptly called on Marshal Li Tsung-jen, the Kwangsi leader, and frankly discussed with him and with Dr. Kan Chieh-hou, the Nanking Government's Foreign Office representative in Canton, the purposes of the visit. On the following day, without seeing the Kwangtung leaders, Matsumoto, accompanied by Mr. Tatsuo Kawai, the Japanese Consul General at Canton, left by a special plane for Nanning, the provincial capital of Kwangsi, in which province the two Japanese officials remained for three days and held conversations with Chairman Huang Hsu-ch'u of the Kwangsi Provincial Government and General Pai Chung-hsi, Vice Commander of the Kwangsi forces. The party returned to Canton by plane on May 31st and it was only after such return that Matsumoto called upon the Kwangtung leaders, namely Marshal Ch'en Chi-t'ang and Provincial Chairman Lin Yun-k'ai. This procedure caused considerable speculation in Canton, the local press commenting that Mr. Matsumoto's disregard of the Kwangtung leaders would appear to indicate that Japan's interest in South China lies in Kwangsi rather than Kwangtung.

Dr. Kan informed me that Mr. Matsumoto, in his conversations with him and with the Kwangsi and Kwangtung leaders, had been quite outspoken and frankly intimated that since the Japanese Foreign Office and the War Office in Japan had been unable to agree upon a common policy toward China, he had come, just as Major General Doihara had, in an effort to obtain directly from the Kwangtung and Kwangsi leaders a definite statement as to whether or not they were willing to cooperate with Japan. He stated that the attitude of South China toward Japan was of great interest to the Foreign Office in that

the Japanese military authorities in China were constantly seeking to justify to the War Office, their sabre-rattling in China, by referring to recalcitrant South China as abundant evidence that the Japanese Foreign Office erred in seeking *rapprochement* with the Nanking Government since that Government has not sought to put an end to the anti-Japanese attitude of the South China leaders and thus furnishes to the Japanese military mind another evidence of the "insincerity" of Chiang Kai-shek and Wang Ching-wei.

Dr. Kan stated that Mr. Matsumoto appeared particularly interested in ascertaining whether or not there had been any change in the attitude of the South China leaders toward Japan as evinced by them to Major General Doihara at the time of his recent visit to Kwangtung and Kwangsi. To clarify this statement, I inquired of Dr. Kan if Matsumoto had also inquired as to the attitude of the South China leaders toward the Nanking Government and Dr. Kan replied that Matsumoto had only asked as to South China's attitude toward Japan itself, thus apparently seeking to eliminate from the general picture as drawn by the Japanese militarists in China, the known strong personal dislike of the Southern leaders for Chiang Kai-shek, as long made manifest in the published statements of Hu Han-min and other Southern leaders. Dr. Kan stated that if, through Mr. Matsumoto, the Foreign Office and the War Office should be able to ascertain that the Kwangsi and Kwangtung leaders were willing to depart from their long maintained stand of opposition to Japan, it would greatly strengthen the hands of the Foreign Office and would help possibly more reasonably inclined elements in the Japanese War Office to withstand the clamors of the Japanese military leaders in China for direct action against Chiang Kai-shek and the Nanking Government because of its "insincerity". Dr. Kan stated that Mr. Matsumoto indicated that these same military leaders were insisting that Chiang Kai-shek was merely playing for time, was not making any serious attempt to stamp out anti-Japanese activities in South China or elsewhere, as provided under the "*rapprochement* agreement" with the Japanese Foreign Office and that the only way to put an end to this unsatisfactory situation was by the direct application of military measures. Matsumoto then frankly implied that China is faced with the alternative of sincerely "cooperating" with the Japanese or taking the consequences threatened by the Japanese military leaders in China. He further pointed out that the attitude of the South China leaders toward Chiang Kai-shek and the Nanking Government, was obviously playing into the hands of the Japanese military leaders in China and making it increasingly difficult for the Japanese Foreign Office to persuade the country that adjustment of the strained relations between the two nations by diplomatic means is possible. Mr. Mat-

sumoto also bluntly asked the Southern leaders if they for one moment harbored the belief that the League of Nations, the United States, Great Britain or any other great Power had the slightest intention of coming to China's aid at this critical juncture when China has either to meet Japan's wishes or face the weight of the hand of the Japanese military leaders in China.

In answer to my query as to the position of the South China leaders in the matter, Dr. Kan informed me that obviously South China could not fight Japan but that it was extremely doubtful if the Kwangtung and Kwangsi leaders could be persuaded directly to comply with Matsumoto's request that they definitely inform him whether or not they would cease all opposition to Japan. Dr. Kan then observed that the Japanese military-in-China had promptly sought to counter every move made by the Foreign Office which would rob the military of excuses for further conquest in China; that when the Foreign Office made the "*rapprochement* agreement" with the Nanking Government, the Japanese military promptly staged the "Chahar Incident" as evidence of "China's bad faith"; that with the success of the Japanese Foreign Office in persuading the Japanese Government to elevate the rank of its diplomatic mission in China to an embassy, and with other nations taking similar steps, the Japanese military-in-China started the movement which has already led to the ousting of General Yu Hsueh-chung from Tientsin with promise as a preliminary to probable further Japanese military aggression in North China. Dr. Kan pointed out that these two moves by the Japanese militarists-in-China, clearly show their temper and unwillingness to permit the Japanese Foreign Office to adjust Sino-Japanese relations by any measures which do not fully meet the wishes of a military group which is a power unto itself and which, in spite of its experience in seizing Manchuria, seems intent on adding to its burdens more of China's territory "for the glory of Japanese arms".

In view of this situation, Mr. Matsumoto's visit to South China would appear to have been of very doubtful value in so far as the peaceful settlement of Sino-Japanese difficulties is concerned. It is possible, however, that coming from a non-military man, his words of warning to the South China leaders will cause them to adopt a more conciliatory attitude toward the Nanking Government, a situation which is apparently not desired by the Japanese military in China. As a concrete evidence of this attitude of the military, there is reported the following revealing incident of which I have just been confidentially informed from an entirely reliable source: About two weeks ago, the Customs authorities at Canton seized one thousand or more seditious pamphlets, one lot bitterly attacking Chiang Kai-shek personally as a traitor, grafter and entirely "insincere" toward

his own people, while a second series denounced the Nanking Government and urged the Chinese people without delay to rid themselves of these "perils to the peace, prosperity and happiness of the Chinese people".

The pamphlets in question were intercepted by Customs employees who saw them being smuggled from a Japanese steamer into the launch of the local Japanese agent of the steamship company, the packages being addressed in Chinese and Japanese characters, to the Japanese military attaché resident in Canton. The Japanese Consulate General was evidently promptly informed of the seizure for the Japanese vice consul called at the Customs House and requested that the packages be handed over to the Consulate for its "inspection". When told that the pamphlets were seditious ones and so had been confiscated forthwith, the consular officer was evidently embarrassed but subsequently blandly suggested that it was probably all a plot of some ardent young Chinese nationalist who, by addressing such pamphlets in care of the resident Japanese military officer in Canton, sought to create the impression that the Japanese military party is interested in keeping alive the opposition of the South to the Nanking Government. In relation to this general subject, it is interesting to note that the English language press at Hongkong shortly thereafter published a statement to the effect that "a vigorous denial has been made in Tokyo that Japanese military attachés in China have made 'personal attacks' on General Chiang Kai-shek".

Another part of the same general picture of Japanese machinations in South China, is found in the following incident related to me by Dr. Kan Chieh-hou during our conversation on June 3rd. Within the past ten days, a fleet of eight large Japanese fishing vessels, escorted by a Japanese armed vessel, arrived at the small group of islands lying off the island of Hainan and Kwangtung, this group being known as the Tung Sha Chuan Tao (translation, East Sand Group Islands). From the eight vessels, 300 or more men were landed, allegedly for the purpose of gathering seaweed. The men put up tents and other shelters on the islands and began to harvest seaweed, in spite of protests lodged by the local Chinese authorities when the matter was reported by Chinese fishermen residents of the island group. The eight vessels later sailed away but left camped on the islands approximately 300 Japanese "workmen", who announced to the islanders that 16 vessels will shortly return and that 400 additional men will camp on the island "during the seaweed harvest season". Dr. Kan stated that he had just lodged with the Japanese Consul General at Canton an emphatic official protest at this gross violation of China's sovereignty. Dr. Kan then added that there was a somewhat similar occurrence several months ago when a Japanese steam trawler landed a large

number of men, some of them armed, at a deep bay on the island of Hainan. These men drove the fishermen and local inhabitants away from the bay and remained in the vicinity for several days, during which time it is believed that they made soundings and thoroughly surveyed the bay which the Chinese believe to be one well adapted for the shelter of submarines. Dr. Kan added that during the recent visits of two Japanese admirals to Canton, they both expressed a desire to visit Hainan officially but did not press the matter when the Chinese authorities dared to use the Japanese formula and stated that such visits "would not be convenient" at just that juncture.

In this relation it is to be noted that during the past month there have been repeated rumors that the Portuguese are planning to grant to Japanese firms certain extensive land leases at Macao but this has been flatly denied by the Macao authorities. The rumors persist, however, and it is definitely known that the place has been visited by a number of Japanese naval vessels in recent months and shore parties of officers and men have been observed taking notes, pacing off general dimensions of certain reclaimed land, et cetera. There are also reports that a Japanese firm has offered to construct a new water works at Macao near the shore on very liberal terms. My efforts to substantiate these reports by inquiries in Canton and Hongkong failed to meet with any success.

Owing to lack of proper facilities on board the Japanese steamer on which I am travelling, these pencilled notes will have to await typing at the American Consulate General in Shanghai, if the stay of the steamer permits, or at one of our offices in Japan. To expedite transmission to the Department, copies will be mailed direct to the Department via the diplomatic pouch of the Embassy at Tokyo.

Respectfully yours, C. J. SPIKER

893.00/13164

Memorandum by the Counselor of Legation in China (Peck), Temporarily in Washington

[WASHINGTON,] June 6, 1935.

During the last few years internal policies in Nanking, such as economic programs, have been formulated in leisure, as the result of study and deliberation. In contrast with this process, the formulation of international policies has generally been the result of external pressure. One individual or group of individuals may feel pressure from one source and other individuals or groups from other sources; the policies formed to relieve this pressure generally represent the component of such pressures.

The pressure resulting in foreign policies in Nanking may be internal or external. As an example of a foreign issue showing itself as an internal pressure may be mentioned the struggle for office within the government structure. Even before the formal transfer of the capital from Peiping to Nanking in 1928, the influential groups of "returned students" in the Government were divided roughly into the "European-American" and the "Japanese" parties; within the former group there were further subdivisions on the basis of separate countries, but the struggle has been mainly between the two large sections.

It is not evident that the countries in which Chinese returned students have obtained their foreign education make any planned effort to obtain official positions for the Chinese students whom they have educated; the crystallization of these groups seems to have been occasioned by community of intellectual interests, combination for purposes of joint advantage, et cetera. Nevertheless, there is in Nanking today an interesting campaign for the formation of cultural societies, composed mainly of foreigners and Chinese educated in the countries of origin of such foreigners, bearing names such as "Sino-British Cultural Association", et cetera. In some cases these organizations have as their only sign of life occasional meetings. This is true in the case of the "Sino-Polish Cultural Association", meetings of which are frequently attended in Nanking by the Polish Minister, Mr. Weydenthal. In other cases, for example, the British, French and German associations, buildings have been erected for the use of the societies, the funds coming sometimes from the Boxer Indemnity remissions.

To return, however, to the effect of these distinctions of nationality on the competition for official positions, it may be noted that for the last few years returned students from Japan have been somewhat eclipsed. In other words, the European-American group have succeeded in obtaining jobs, to the exclusion of Japanese returned students. The fortunes of conflict are now beginning to swing in the other direction. The Acting Minister for Foreign Affairs, Dr. Wang Ching-wei, was educated both in Japan and in France. One vice minister was educated in American schools in China and in schools in the United States and the other vice minister was educated in Japan. Most of the important posts like that of director of a department are still held by men who were educated in Europe or America. Within the last few days the press has announced that Dr. J. Heng Liu, Director of the National Health Administration, has been obliged to assign a post in his organization to a Japanese, as adviser. A few months ago Dr. Liu informed the writer that the pressure of Japanese returned students for positions in the National Health Administration and in the Central Field Hospital was growing so intense that he did not think he would be able to withstand it permanently.

As a man educated in the United States, he had appointed to posts in his organization physicians educated either in American institutions in China or in the United States, a policy of which Chinese physicians educated in Japan had always bitterly complained.

More than one year ago a Chinese military officer educated in the United States told the writer that the struggle between the Japanese returned students and the European-American returned students was going badly for the latter. He anticipated, and with apparent reason, that with the growth of Japanese influence over the Chinese Government the Japanese Government would insist upon the employment of more and more Japanese returned students.

In the matter of advisers to the National Government, the Japanese Government has publicly insisted that Japanese shall not be discriminated against in the future as they have been in the past.

The selection of government officials from one or the other of these two main groups of returned students results generally from a spontaneous reaction to the swing of foreign influence in China. For example, if it is the policy of the Chinese Government to seek the support of the European nations and the League of Nations, or of the United States, the natural tendency is to appoint to official positions men educated in Europe or America, in the belief that their presence in the Government will convince the European nations and America of the progress, intelligence, and stability of the Government and will, incidentally, facilitate the transaction of any business in which those nations may be concerned. On the other hand, if the Chinese Government no longer believes that effective assistance can be obtained from the League, or any of the nations in the League, or from the United States, the inevitable tendency will be to displace the European-American group of returned students with men educated in Japan. This explains why the fluctuations of international politics are watched with such personal interest by a large number of important officials in Nanking. It is possible that some of these officials educated in Europe and America, finding their supposed value in promoting *rapprochement* between China and European nations and the United States disappearing, may seek to align themselves with the pro-Japanese group, but this, if attempted, will be a difficult matter.

It is in this environment that China's international policies are born and enough has been said to show that there is what may be called an internal pressure having its effect, however slight, in the determination of such policies. In the handling of routine business, of course, such as diplomatic "cases" in the Foreign Office, industrial projects and trade-mark cases handled by the Ministry of Industries, enterprises like the China National Aviation Company in the Ministry of Communications, and numberless other matters, it frequently

makes a decided difference whether the official immediately in charge was educated in the United States or in Europe, or, on the other hand, in Japan.

Surveying the field of external pressure on the Chinese Government which has its effect in the determination of the Government's foreign policies, we find our attention centered almost exclusively upon Japan. That is to say, while the Chinese do not anticipate any great benefit from a *rapprochement* with Japan, neither do they feel that they have derived any great benefit from their attempt during the last few years to cultivate the League and the United States. In this state of affairs the compelling factor is the ability and obvious intention of Japan to make the Chinese Government decidedly uncomfortable if it does not show itself more friendly to Japan than to any other nation or group of nations.

Based upon numerous conversations with important Chinese officials in Nanking, the writer has received the impression that, as Chinese, they resent the domineering attitude of the Japanese and their feeling of superiority; they fear that friendly association with Japan would result in the nation becoming a "puppet" of Japan and in their becoming "puppets" in their individual spheres; they do not relish the prospect that any Chinese seeking to achieve influential position in the Chinese Government must toady to the Japanese.

In addition to this psychological reason which tends to divert the present leaders in Nanking from a policy of Sino-Japanese friendship, there are at least two other reasons why it has not been easy to initiate the policy of conciliating Japan which began with the present year. One of these reasons is that the Nationalist Party and the Government have widely and carefully cultivated the idea that Japan is a predatory nation and that true patriotism on the part of Chinese demands resistance to Japan. It is difficult for the Government, with any degree of logic, to reverse its position publicly in this regard. A second reason is that the opponents of the present administration in Nanking are only too able to cause the Government embarrassment in its new departure by quoting its previous official statements on the impossibility of cooperation between China and Japan until the latter has abandoned its predatory policy and restored the loot.

It is interesting to note that Japan, in order to make this change of policy more easy for the Government at Nanking, has endeavored to persuade the most powerful political opponents of Nanking not to use this issue against Nanking. Very recently Mr. Suma, Japanese diplomatic officer resident in Nanking, naively told the writer that it was difficult for him to penetrate the complexities of Chinese internal politics, as an instance of which he said that it then appeared that

the régime at Canton pretended that it was closer to the Japanese Government than the régime at Nanking was.

The authorities at Nanking assert that the Japanese Government, embracing both its civilian and military branches, makes use of various devices to weaken China, to prevent it from unifying and to embarrass the Chinese Government, in order to bring the Government to its knees, such means varying all the way from military occupation of territory down to threatening or persuasive conversations with provincial leaders and the instigation of secret, subversive movements. As an example of such tactics which was rather out of the ordinary, the writer was told that the Japanese cotton mills in Shanghai refused to purchase any of the American cotton acquired by the Chinese Government through the operation of the Cotton-Wheat Credit arrangement in 1933. As will be recalled, this resulted in the whole transaction proving unprofitable, although the then Minister for Foreign Affairs told the writer that because of this transaction, which was interpreted as a gesture of friendship from the United States, he had been encouraged to remain in his post a few months longer than would otherwise have been the case; this gentleman, as may be supposed, was of the European-American group, as opposed to the pro-Japanese group.

The actual process by which the foreign policies of the Chinese Government are formed involves agitation or recommendation by individuals in or connected with the Government; the effect of Chinese public opinion is, it may be conjectured, strong but not conclusive.

Naturally, the one individual most powerful in the formulation of foreign policies is General Chiang Kai-shek, Chairman of the Military Affairs Committee, President of the Central Executive Committee of the Nationalist Party, et cetera. It is safe to say that nothing is done in the Government at Nanking which is known to be contrary to General Chiang's desires or without ascertaining his views, if the subject matter is of such importance that he might be interested in it. Since General Chiang has latterly been residing at Nanchang in Kiangsi Province, and in Szechuan Province and in other places, this circumstance often delays the prosecution of business in which foreigners are concerned.

As is well known, General Chiang's views with regard to Japan are that it would be suicidal for the present administration at Nanking openly to oppose Japan, both because China is in no position to fight Japan successfully and because a defeat at the hands of Japan would so discredit the present administration, and himself, that both would fall from power.

The second most influential person having influence in the determination of foreign policies is Dr. Wang Ching-wei, President of the Executive Yuan, but he is supposed to be, at the present time, completely subservient to Chiang Kai-shek. Moreover, his personal adviser in these matters is Mr. Tang Yu-jen, Administrative Vice Minister for Foreign Affairs, who was educated in Japan and believes, with General Chiang Kai-shek, that the only course open to China is to temporize with Japan, or even, for the time being, to work with Japan wholeheartedly in the political and economic development of China.

Owing to the inability of the Nanking Government to enforce its decisions, for example, on the Canton and Kwangsi leaders and even on such nearby leaders as General Han Fu-chu, in Shantung, the Government must be influenced by the probable attitude which would be taken by the provincial leaders in the event that they were subjected to direct Japanese pressure. Unfortunately for its power of free decision, the Nanking Government has reason to believe that none of these provincial leaders would stand out strongly against Japanese pressure, if powerfully exerted.

In theory, the departments of the National Government having most influence in forming China's foreign policies are the Central Political Council and the Standing Committee of the Central Executive Committee, the two highest organs of the Nationalist Party, and the National Defense Committee, an organization created after trouble began with the Japanese in the autumn of 1931 and spring of 1932. The National Defense Committee has been described as being a sort of superior Executive Yuan, whose members are selected from the Government and Party and are all known adherents of General Chiang Kai-shek. Naturally, foreign policies are also discussed at meetings of the Executive Yuan and Legislative Yuan and since the same small group of persons are leaders in all of these organizations it is open to a great many persons, in the course of these discussions, to present their views to the minority which ultimately determine foreign policies.

It is the practice of General Chiang Kai-shek, however, to summon special conferences of the most prominent and most trusted leaders to discuss special problems in foreign relations as they arise. These conferences have in recent years taken place generally at General Chiang's headquarters in Nanchang, Kiangsi, at Kuling, a summer resort in the same province, at Hankow, or elsewhere. Within the last few days such a conference is reported as having been summoned by General Chiang at Hankow to deal with the demands filed by the Japanese Kwantung Army in reference to political changes in North China. The participants in these conferences generally proceed to them in large American airplanes placed at their disposal by General Chiang.

No questions of international relations equaling in importance those connected with relations with Japan have arisen in connection with other countries after 1931. Roughly speaking, therefore, Chinese leaders may be divided into two camps, one group urging that China will suffer least at the hands of Japan if Japan is conciliated, and the other advising resistance to Japan, based upon reliance on the League or individual European nations, or on the United States, or on China's own ability to withstand pressure from Japan. Allusion has already been made to the known fact that General Chiang Kai-shek has adopted a policy of compromising with Japan, a policy which is reliably reported to have been commended recently to the favorable notice of the Chinese Government by the British Foreign Office. So far as can be learned the representatives of all other nations have carefully avoided all expression of opinion regarding the attitude which China should adopt toward Japan.

Although what precedes is only a partial discussion of the forces which have resulted in the present policy of the Nanking Government to conciliate Japan, it is possible that it will indicate why, in the absence of any indication of active interest in Europe and America in the Sino-Japanese struggle, the leaders in Nanking have decided, partially because they are exhausted, to give up the struggle for the time being.

It is an interesting conjecture whether nations other than Japan could influence China's foreign policies by cultivating more actively than they do at present personal relations with officials of the Government who were educated in their respective countries. The reply to such a query would have to be, in the opinion of the writer, that so long as Japan applies to China military force or the threat of such force and other nations refrain from any active measures to restrain Japan, Japan will be the dominant influence in forming China's foreign policies. After all, mere inclination must give way to compulsion.

W[illys] R. P[eck]

793.94/7006 : Telegram

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

NANKING, June 6, 1935—10 a. m.
[Received 9:28 p. m.]

140. My 136, June 4, noon.

1. There is a growing belief here that one phase of the Japanese demonstration in North China will definitely be a Japanese movement directed against Chiang Kai-shek. Uncongenial evidence is found in

the removal of his nephew, Chiang Hsiao-hsien, mentioned in my 139, June 5, 10 a. m., and among Japanese underground activities it is reliably reported that a successful effort has been made to effect the retirement from Chiang's service of his personal American pilot, Harry Smith, and that a determined attempt is being pursued to work the elimination of W. H. Donald[68] from his post of confidential adviser to Chang Hsueh-liang, Chiang Kai-shek and Madame Chiang.

2. Opinion among observers in Nanking generally inclined to the belief that the Japanese talk of extending the demilitarized zone to embrace the Peiping-Tientsin area was in the nature of threatening propaganda and that if the Chinese are compliant with the wishes of the Japanese military, as seems now to be the case, there is little danger of Japanese occupation of further Chinese territory except possibly in Chahar and Mongolia.

For the Minister:
ATCHESON

793.94/7017 : Telegram

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

SHANGHAI, June 6, 1935—noon.
[Received June 7—8:25 p. m.]

285. A Japanese long known to the Legation for frankness and veracity, who is on good terms both with the Japanese military and Japanese diplomats in China, has informed a member of my staff as follows: The immediate purpose of the Japanese military is to obtain substantial political control over Hopei Province by obtaining, (1) removal of all troops of Chiang Kai-shek and of Chang Hsueh-liang to positions south of at least Paotingfu (while some Japanese military want them sent south of the Yellow River); (2) removal of Kuomintang branches; (3) removal of Yu Hsueh-chung from Provincial chairmanship; (4) appointment of a new Mayor at Tientsin and (5) transfer of Provincial capital to Paotingfu. These developments in Hopei will also give the Japanese military preponderant influence in Shantung Province and will make it unnecessary for them to bother about Chahar and Suiyuan. The real object to the Japanese military is to eliminate Chiang Kai-shek as a potential menace to Japanese interests; and the Japanese hope that his loss of prestige through capitulation to Japanese demands with regard to North China, together with the effects of rebellion by the southwest which the Japanese military are anticipating, will force Chiang out of the picture. The informant views the present situation as being

[68] An Australian citizen long resident in China.

as serious as the situation was in 1931 because today the attitude of the Japanese military toward Chiang Kai-shek is the same as it was then toward Chang Hsueh-liang.

This informant anticipates that Shang Chen will be put in charge of police forces in the area after demilitarization, that Ho Ying-chin may remain in temporary direction of the situation now in the National Government, and that Huang Fu is politically finished. He regards Chiang as having three courses of action, (1) to remain in West China, adopt communism and with Russian assistance maintain himself there; (2) to fight Japan; and (3) to capitulate to Japanese demands. The possibility that he may fight Japan is strengthened in the informant's opinion by the possibility that T. V. Soong, who is anti-Japanese and ambitious, may give money to Yu Hsueh-chung to cause the latter to resist the Japanese, a course which Yu might be headstrong enough to follow. Capitulation to Japanese demands will so discredit Chiang that he will be forced out of office.

I am inclined to take the view that elimination of Chiang is now the purpose of the Japanese military and the Japanese policy in China, a purpose which was previously held only by an important section of them. This view is supported by statements of Japanese military to the press in which they blame Chiang for the present situation. (The Japanese Military Attaché Isogai informed the press yesterday that Chiang is to blame for the situation.) This opinion is also supported by a statement of Suma, Japanese diplomat who is of the military party. During a tirade against Chiang, Suma told a member of my staff that Chiang is to blame for the present difficulties and that there is no hope for smoothing Japanese relations as long as Chiang is in power.

As for the [claim of?] Japanese military that their ambition will be assisted by rebellion in the Southwest, where Japanese military have been intriguing for some time, I am inclined to believe that they will be disappointed unless Chiang's present strength in area adjacent to Kwangtung and Kwangsi is diminished as a result of entanglements elsewhere.

According to my informant, the Japanese might chose the present time for demands respecting North China because they saw that Hirota's policy of *rapprochement* was diverging too greatly from the military's China policy. They decided that delay might make it more difficult for them to take over complete direction of Japanese policy in China. (Suma recently stated that, although since the [winter?] he has been working for the *rapprochement*, neither he nor any other Japanese had any belief in the efficacy of such efforts). In this connection I find interesting the statement of my informant to the effect that the Japanese Military Attaché left Shanghai for Peiping yester-

day for the primary purpose of being absent when Ariyoshi presents credentials as Ambassador. My informant and also Japanese diplomats in Nanking believe that Ariyoshi will probably arrive within a few weeks. Suma hints that he himself will be transferred to the United States in the very near future, and I feel that these two developments may be a part of some sort of a compromise within the Japanese Foreign Office, not unlike the compromise which authorizes the removal of Ariyoshi from his post as Foreign Office spokesman.

Repeated to Peiping.

By mail to Nanking Legation and Tokyo Embassy.

For the Minister:
CUNNINGHAM

693.11241 Manchuria/2 : Telegram

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

PEIPING, June 6, 1935—1 p. m.
[Received 2:35 p. m.]

244. Reference Department's instruction No. 1512, November 19, 1934,[69] regarding customs free entry into "Manchukuo" of personal effects of consular officers. Mukden Consul General reports that five cases of official supplies for his office are being refused free entry through the "Manchukuo" customs at Dairen.

Dairen Consul says that although some 2 years ago the "Manchukuo" authorities directed that the customs tariff be applied to official as well as personal consular supplies entering Manchuria, the Dairen customs representative has used his discretion and refrained from strict compliance with those instructions until recently when they were reissued with explicit directions for strict compliance.

Ballantine reports that under similar circumstances his British colleague paid the duty under protest and will avail himself of an early opportunity to inform the "Manchukuo" authorities at Hsinching that the imposition of import duties on official supplies of consular fees is at variance with international usage. Ballantine requests authorization to act similarly.

The Legation is of the opinion that he should be authorized to pay the duty but it does not believe that it would be advisable to protest such payment. It believes, however, that Ballantine might appropriately discuss the measure informally upon his next visit to Hsinching.

The Department's instructions are requested.

For the Minister:
LOCKHART

---

[69] *Foreign Relations*, 1934, vol. III, p. 308.

793.94/7007 : Telegram

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

NANKING, June 7, 1935—10 a. m.
[Received June 7—9 : 55 a. m.]

141. My 140, June 6, 10 a. m.

1. According to Suma of Japanese Embassy, Japan "has no territorial ambitions at present" in North China, the principal object of Japanese wrath there has been Yu Hsueh-chung "and his people", Yu must "either get out or we will drive him out", and there must be a "clean sweep" of officials in the North. Suma states that his visits to the Foreign Office which have been commented on in the press were not to present demands but to give the Foreign Office "information" concerning the North China situation and Japanese grievances in connection therewith.

2. With the appointment of Yu to be garrison commander of the Kansu, Szechwan and Shensi borders as a sequel to the other changes effected, and with the consequent impending transfer of his troops which comprise the remaining units in Hopei of the Northeastern armies, it seems that the Japanese military have accomplished their immediate purposes in North China and that the crisis in that region has therefore now passed.

For the Minister:
ATCHESON

793.94/7008 : Telegram

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

TIENTSIN, June 7, 1935—noon.
[Received 1 : 50 p. m.]

The transfer of Yu Hsueh-chung from his post as chairman of Hopei Province to that of Bandit Suppression Commander for the Szechuan, Shansi and Kansu border is officially confirmed.

CALDWELL

793.94/7009

The Secretary of the Navy (Swanson) to the Secretary of State

EF16/P9-2(350607) WASHINGTON, 7 June 1935.

SIR: For your information, I am pleased to quote the following dispatch received by priority radio from the Commander-in-Chief of the Asiatic Fleet:

"Received following information, 'Shino Secretary at the Shanghai Embassy of Japan tells me Japanese Army leaders in Tokyo will today ask permission direct from the Japanese Emperor to exercise a free hand in Northern China. This will mean decisive action if granted.' Above quoted information from Harris the AP China correspondent Have no details of contemplated action".

The dispatch quoted was received in code.

Respectfully, CLAUDE A. SWANSON

793.94/7133

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

No. 3606 PEIPING, June 7, 1935.
[Received June 29.]

SIR: I have the honor to enclose, for the information of the Department, a copy of confidential despatch No. 145 of June 3, 1935, from the Consulate at Tsinan.[70] It will be observed from that despatch that the Japanese Consul General at Tsinan, Mr. Nishida, is pressing for the dismissal of the Tsinan Mayor on somewhat flimsy grounds, and that Mr. Nishida apparently is acting as a spearhead for Japanese pressure now being brought against Chairman Han Fu-ch'ü of Shantung.

Respectfully yours, For the Minister:
F. P. LOCKHART
Counselor of Legation

793.94/7013 : Telegram

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

TOKYO, June 8, 1935—10 a. m.
[Received June 8—3 : 50 a. m.]

123. In answer to a telegram from the Legation in Peiping requesting any available information concerning the Japanese attitude toward Chiang Kai-shek, the Embassy has replied as follows:

An informant in a position to know said to a member of my staff yesterday that while at first the Foreign Office was inclined to regard the murder of two pro-Japanese Chinese editors in Tientsin as purely local in origin, evidence was now coming to light which might implicate Chiang Kai-shek himself. It appears that there is reason to believe that the notorious Blue Shirt Society according to Japanese information is in some way affiliated with him. This connection is

[70] Not printed.

not through the Kuomintang but is, they believe, a personal connection outside of Government circles. Our informant stated that of course convincing proof was difficult to obtain. Asked what the Army people thought of the matter, he said that they were the first to get on to the trail. A further inquiry as to who was conducting the investigation elicited the reply that the Japanese consular authorities in China were doing it.

In the opinion of foreign Military Attachés in Tokyo who are in close touch with Japanese Army officers the accusations against Chiang Kai-shek uttered by some Japanese military officers in China do not mean that the Japanese Army intends for the present at least to overthrow Chiang Kai-shek and the Central Government at Nanking principally because there would be nothing to fill the vacuum caused by their elimination and the Japanese Army needs the cooperation of a Central Government in order to carry out the alterations which they desire in the administration of North China. The Military Attachés believe that the remarks against Chiang are intended as a sort of intimidation designed to frighten him into compliance with the Japanese demands.

GREW

793.94/7014 : Telegram

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

PEIPING, June 8, 1935—10 a. m.
[Received June 8—6 : 42 a. m.]

249. Paragraph 1 of Legation's 241, June 3, 5 p. m. Japanese have now announced that equal number of troops from Tientsin garrison will not be returned to Japan for the present. This is contrary to usual practice and results in substantial strengthening of Tientsin garrison.

Repeated to Nanking and Tokyo.

For the Minister:
LOCKHART

793.94/7019 : Telegram

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

NANKING, June 8, 1935—noon.
[Received 5 : 07 p. m.]

143. As a result intense renewed belligerence of Japanese military spokesman at a time when the Chinese have apparently undertaken to meet the Japanese Army's wishes and the Japanese Embassy has intimated that the crisis is over, grave fears are now felt here in official

circles that the Japanese formulated their demands in the expectation that the Chinese would not comply, thus giving an excuse for direct action by troops, and that either the recognition of "Manchukuo" or the extension of the demilitarized zone or both are the ulterior aims of the Japanese forces [*military?*]. One explanation of the new threats which is reasonable, in view of the curious dualism in Japanese policy as expressed by the divergence between acts of the Foreign Office and those of the Army, is that Japanese Army leaders in North China, offended at complaints of the Chinese Ambassador in Tokyo concerning alleged "personal attacks" by Japanese officers upon Chiang Kai-shek, are now furious with the Foreign Office because of Hirota's subsequent conciliatory references to Chiang and are determined to exhibit forcefully to the Foreign Office their independence of any civil branch of the Government.

For the Minister:
ATCHESON

793.94/7015 : Telegram

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

PEIPING, June 8, 1935—5 p. m.
[Received 9 : 55 p. m.]

252. 1. Following interview by General Isogai, Military Attaché to the Japanese Embassy in China, was given to Rengo and published today on North China situation:

"This affair was brought about by the intrigues designed to bring about a dictatorship. We are not making an issue of the removal of a few provincial officials, that is a small question. We want to know if General Chiang is sincere enough in his desire for peace in the Far East to abandon the policies he has pursued since the day he left Canton and to seek a solution of all Sino-Japanese problems, including that of "Manchukuo" once and for all by solution of the "Manchukuo" problem. It is natural that I should mean China's recognition of the new Empire but we are not interested in the fate of General Chiang, what we seek is a government capable of cooperating with Japan in maintaining the peace of the Far East. It does not seem to us that General Chiang is prepared to lead one, consequently we find it necessary to carry out our objective even if it applies only to North China. We are fully prepared to do this."

2. No dependable information available regarding military conference at Tientsin but unconfirmed reports are in circulation that demarcation in the form of an ultimatum may shortly be communicated.

3. Local postal authorities under instruction have placed large stocks of stamps in foreign banks and have taken other precautions against postal losses.

4. Several of the more important members of the military conference sitting at Tientsin are said to be coming to Peiping late this afternoon for the purpose of interviewing Ho Ying-chin.

5. General Shang Chen left this afternoon for Tientsin to assume his new post as garrison commander.

6. Hankow Consulate telegraphs today that more recent information indicates Chiang Kai-shek will come to Hankow about July 1 en route to Kuling.

7. Mukden Consulate telegraphs today Japanese news service announces that Doihara leaving for Peiping today to "impress upon China that Kwantung Army is not trifling and that if demands are not complied with extreme measures will be taken".

JOHNSON

693.11241 Manchuria/3 : Telegram

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

PEIPING, June 10, 1935—4 p. m.
[Received June 10—10:45 a. m.]

257. Legation's 244, June 6, 1 p. m. Dairen Consul now reports receipt of written refusal of the "Manchukuo" Customs to permit free entry of the supplies in question for the reason that free entry is granted only to the supplies of those countries which recognized the State of "Manchukuo." The Legation is still of the opinion that Ballantine should be authorized to pay the duty without protest.

JOHNSON

793.94/7020 : Telegram

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

TOKYO, June 10, 1935—5 p. m.
[Received June 10—7:47 a. m.]

125. Embassy's 123, June 8, 10 a. m. and previous in regard to crisis in North China. The Embassy has been endeavoring to confirm newspaper reports to the effect that on June 9 the Japanese Army delivered to General Ho Ying-chin an "ultimatum" requiring an answer by midnight of June 12 but both Foreign Office and War Office state that they have not yet received official reports. Foreign Office spokesman states however that the demands cannot constitute an ultimatum as an ultimatum requires a threat of war and Japan has not decided to declare war in the event of the refusal of the Chinese to accede to the Japanese demands.

Repeated to Peiping.

GREW

793.94/7021 : Telegram

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

PEIPING, June 10, 1935—5 p. m.
[Received June 10—11 : 14 a. m.]

258. Chinese compliance with Japanese demands continues. According to various sources the withdrawal of Yu Hsueh-chung's troops progresses, their ultimate destination being given as Tungkuan on the Shensi border; the withdrawal of practically all of General Chiang Kai-shek's troops from the Peiping-Tientsin area has been accomplished and the Third *gendarmerie* regiment under the control of the National Government has left Peiping for Paoting.

General Shang Chen recently appointed Tientsin garrison commander became Acting Mayor of Tientsin June 9 while Liu Yu-shu became head of the Public Safety Bureau of Tientsin. It is reported that some of Shang Chen's troops are moving from Peiping to points in the vicinity of Tientsin which are outside the railway zone. However, after the departure of Yu's and Chiang's troops from this area the strength of Shang Chen's troops will be approximately that of a police force adequate for this area and to all intents and purposes the Peiping-Tientsin area can be regarded as demilitarized.

An American Army intelligence officer states that arrangements have been made by the Japanese for eight trains to transport Japanese replacement troops from Tangku to Tientsin on June 12 and to carry those troops relieved from Tientsin to Tangku on June 18. If this report is true it may indicate that the Japanese do not contemplate an appreciable increase of their troops in Hopei in the immediate future and that they are satisfied for the time being with the results obtained by them in Northern Hopei through their recent demands. However, some significance may be attached to the fact that the Japanese military according to the Japanese Legation will hold a conference on June 12 at Tientsin.

Repeated to Nanking.

JOHNSON

793.94/7022 : Telegram

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

PEIPING, June 10, 1935—6 p. m.
[Received June 10—11 : 39 a. m.]

259. Situation in North China remains obscure in spite of the fact that newspapermen and others in contact with Chinese and Japanese here and in Tientsin express the belief that Japanese indicate satisfaction with efforts Chinese are making to meet Japanese demands. I

gather that Japanese military are prepared to insist on eventual liquidation of Kuomintang activities in North China; that they will not be satisfied with mere removal of Tangpu to Paotingfu. I gather also that they are going to insist that Chiang Kai-shek as principal leader become more active in meeting Japanese approaches and that he accept full responsibility for carrying out such desires as the Japanese may have in mind, specifically, that he discontinue present apparent policy of absenting himself from Nanking while at the same time controlling Nanking and all Government activities.

In pursuing their ends Japanese military have inspired such excitement in the minds of the Chinese that they have to continue a strict censorship on all [messages?] prepared for despatch by foreign news correspondents except Japan. They themselves are afraid to telegraph facts. I infer that they are even afraid to instruct their Ministers abroad to explain the situation to foreign countries lest in so doing they further excite the wrath of Japanese military who demand that all questions relating to China must be settled in accordance with the wishes of Tokyo and are not to be discussed in other parts of the world. In this connection they have taken to heart Japanese military censure of the Chinese Minister at Tokyo who attempted to defend publicly General Chiang Kai-shek.

There is no doubt in my mind ultimate aim of Japanese military is to purge North China over an indefinite area of all Chinese political activity as hitherto expressed by the Kuomintang through its local party headquarters and that if demands are met North China will have such officials and only such officials as are acceptable to the Japanese military. The difficulty in this matter, according to Chinese with whom I have talked, lies in the fact that they appear to be unable to determine how far Japanese desire [to] go and therefore cannot tell when some unsatisfied demand of the Japanese military may be used as an excuse for actual military occupation here in North China. Japanese military for instance demand cessation of all anti-Japanese activities, liquidation of all secret organizations, and Chinese profess to be powerless in regard to secret organizations of which they claim to have no knowledge or control, and they further claim that they are never certain as to what activities or statement by Chinese may at one time or another be determined by the Japanese as anti-Japanese. Such a situation leaves the future very obscure. The only settlement that can be adequately acceptable to the Japanese would be the demand in which the Japanese themselves would deal directly with those judged by them to be anti-Japanese in speech or action.

Repeated to Tokyo, paraphrase to Nanking.

JOHNSON

693.11241 Manchuria/4 : Telegram

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

WASHINGTON, June 10, 1935—6 p. m.

156. Your 244, June 6, 1 p. m. Department authorizes Legation to instruct Ballantine as suggested in the penultimate paragraph of your telegram. The Department will await with interest a report of Ballantine's informal discussion.

PHILLIPS

893.20/541

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

No. 10115 SHANGHAI, June 10, 1935.
[Received June 29.]

SIR: It was in 1932 that Colonel Jouett and some eleven associates were employed by the Chinese Government to organize the school at Hangchow which is now known as the Central Aviation School. They arrived here during the summer of that year under a three years contract, which expired this month. I have the honor to advise that Colonel Jouett's contract was not renewed, he insisting that he must return to private business, and he sailed from Shanghai on the seventh, eventually to return to America. Some of the American members of the school have severed their relations with the school voluntarily or otherwise and there remain but eight of those previously employed by Colonel Jouett. General Chou Chih-jou, in command of the aviation school, has received authorization to renew the contracts of such Americans as he thinks for the best interest of the school and to employ others to fill the vacancies up to the number of eight and, if he considers it desirable, to employ someone directly from the United States to take the position which Colonel Jouett formerly occupied as head of the foreign group of teachers. There was considerable doubt in the minds of the American members of the corps as to whether their contracts would be renewed and it was therefore a great relief and gratification that the Chinese commander of the school received authority from the Generalissimo, Chiang Kai-shek, to fill the vacancies that would occur upon the expiration of the contracts with Americans.

The school has been a distinct success under the direction of Colonel Jouett. There have been insubordination at times and public airings of the differences of opinion that have existed among the members of the staff from time to time, but nevertheless the school must be regarded as having been successful thereby adding to American prestige—because it has provided a school for training in aviation which

is a credit to its instructors and moreover has the approval of the Chinese authorities. A high Chinese official recently remarked that "the school is very excellent". From an American commercial standpoint the training of aviators in accordance with recognized American methods of instruction must necessarily benefit our trade because the aviators will be predisposed to use the machines that their instruction has peculiarly qualified them to use.

During the time that Colonel Jouett has been the head of the instructors there have been graduated about three hundred and thirty-five cadets. In September 1932, approximately fifty Chinese qualified aviators were confirmed by Colonel Jouett and his associates. In addition the December class of 1933 graduated fifty, the June class of 1934 sixty-five, the December class of 1934 sixty-four, and the class of June 1935, fifty-six. There are ninety-eight cadets in training in the fifth class to be graduated in December of this year, and in the sixth class to be graduated in June of next year one hundred and sixty. Of course some of these will be unable to complete the course but it is not beyond expectation that seventy-five per cent of the fifth class and sixty per cent of the sixth class may succeed in qualifying as aviators.

On graduation day there is always an aerial demonstration. In December 1934 there were seventy-one planes in the air in complete formation in review, while on the first of June of this year there were seventy-five planes in review. In December the Generalissimo personally attended the graduation exercises. Graduation day is a very important event and is always observed in some striking manner and is attended by many high officials.

Among the civilities that were exchanged just prior to Colonel Jouett's departure was the presentation to him by the National Government of a medal of the Order of the Commander of the Jade. On May twenty-fifth the school presented to the corps of American instructors a magnificent incense burner, and the American corps of teachers presented to the school a silver loving cup. On the eve of Colonel Jouett's departure he was the guest of honor of Dr. H. H. Kung, Minister of Finance, at dinner.

It is considered that the foregoing details may be of interest to the Department, particularly in view of many rumors that possibly have reached the Department regarding the unpopularity of the American instructors with the Chinese and their failure to cooperate and coordinate their efforts. I am of the opinion that American aviation in China today is upon a more solid foundation than it has been for the last eighteen months and that the Italians, who have had the unquestionable support of their government, have diminished in popularity.

Respectfully yours, EDWIN S. CUNNINGHAM

893.01 Manchuria/1264

The Consul General at Mukden (Ballantine) to the Minister in China (Johnson)[71]

No. 112 MUKDEN, June 10, 1935.

SIR: I have the honor to refer to my despatch No. 102 of May 26th [*25th*] and political review for May[72] containing discussions of the political-economic crisis in "Manchukuo" revealed by recent cabinet changes,[73] the visit to Manchuria of Japanese War Minister Hayashi and other developments, and to submit supplementary information in connection therewith. This information, which was obtained directly from an observer whose reliability and exceptional closeness to official circles render him an authority most deserving of credence, substantially corroborates previous reports from numerous less trustworthy sources regarding the significance of the cabinet changes. It is in line with other evidence that the present crisis in Manchurian affairs is primarily attributable to the Military's anxiety lest public dissatisfaction over the failure of the "Manchurian Venture" to provide opportunities for private economic profit commensurate with added capital and tax demands result in collapse of the military controlled development of the country, and that it marks a move by the Kwantung Army to confirm its role as administrator of Manchuria on such a permanent and all-exclusive basis as definitely to eliminate hope of further effective opposition and thus silence disturbing elements who regard military domination of Manchurian economy as a necessary temporary extravagance to be replaced as rapidly as possible by civil administration which would offer more tangible help to the Japanese tax payer and entrepreneur.

The informant stated in effect that the Army's goal is to reduce the "Manchukuo" Government to a point where, instead of functioning as a Japanese directed administration subject to general supervision and occasional discipline by the Kwantung Army, it will become an actual part of the Army's administrative machinery to such an extent that the Military can rest assured that none of its actions will fail to coincide with the Army's desires. Work towards this goal has been pushed swiftly during the past year, and success was brought substantially nearer last fall with accomplishment of the simultaneous drastic reorganizations of the Japanese Manchurian and "Manchukuo" governmental administrative systems, entailing establishment of the War Department's supremacy to the practical exclusion of other Japanese ministerial influence in Manchuria, liquidation of unmanageable

[71] Copy transmitted to the Department by the Consul General at Mukden in his unnumbered despatch of June 10; received July 9.

[72] Neither printed.

[73] See telegram No. 210, May 22, 9 p. m., from the Minister in China, p. 178.

provincial units, greater centralization of both Japanese and "Manchukuo" systems in Hsinking under direct surveillance of Army Headquarters, as well as extensive changes in personnel.* These steps, however, far reaching as they were, still left room for considerable activity on the part of "Manchukuo" organs independent of and not infrequently at variance with the Military's wishes. This was due to the circumstance that a few of the higher Chinese "Manchukuo" officials, being men with ideas of their own, were naive enough to assume that their positions as titular heads of office entitled them to some voice in the conduct of such office affairs, and also that among the Japanese "Manchukuo" personnel occupying key positions of authority were a considerable number who, not having been selected by the Army, had their own conception of how affairs should be administered and were not properly imbued with the necessity of consulting the Military on matters of consequence.

Chief among the more independent minded Chinese officials was the Prime Minister, Cheng Hsiao-hsü, who, as he himself has admitted on several occasions in confidence, long foresaw the degree of domination towards which the Army was working and struggled his best to prevent its accomplishment. Exasperated by the military dictated governmental reorganization undertaken last fall, he tendered his resignation in September, but was finally persuaded to withdraw it. Shorty after the return of "Emperor" Kang Teh from Japan, he again proffered his resignation which was this time accepted.

Taking advantage of the opportunity presented by the Prime Minister's resignation, the Japanese War Department immediately ordered the cabinet changes, described in the Consulate General's despatch No. 102 of May 26th [*25th*], which were deliberately aimed to remove from influential positions such other relatively able and independent men as Hsi Hsia and Tsang Shih-yi and fill the vacancies created with "yes men", devoid of any initiative, who would be well satisfied with the salary increase offered them and neither desirous nor mentally capable of taking part in government affairs.

The cabinet changes will, according to the informant—and also other sources of information—, be followed systematically by general shakeups in all ranks of the central, provincial and local governments. This will involve not only removal of many Chinese but also replacement of Japanese who are not sufficiently good "Army men" by other Japanese who will know enough to cooperate closely with the Military; and it appears that the latter process was initiated with the appointment of Mr. Nagaoka to the all important position of Director of the General Affairs Board of the State Council in place of Mr. R. Endo, and re-

*Despatch No. 11 of November 22, 1934. [Footnote in the original; despatch not printed.]

placement of Mr. K. Sakatani by Mr. S. Odachi as Deputy Director of the same organ.†

The informant stated that actual development at Hsinking following the cabinet changes and appointment of Nagaoka and Odachi very conclusively bear out the accuracy of this diagnosis of the Army's intentions. Promptly after the changes, the new Director of the General Affairs Board of the State Council transferred the seat of his office from the State Council building to Kwantung Army Headquarters. At the same time the custom of reaching decisions on matters of import through meetings of the State Council—dominated though they had been by Japanese vice ministers and advisers—was abandoned, and instead the procedure adopted of referring all such questions to Mr. Nagaoka at his desk in the Army building, whose decision thereon is, it may be assumed, merely a transmittal of orders given him by General Minami. Similar new practices are being followed in all ministerial activities, official circles having been given clearly to understand that all matters other than routine must be referred up to Army Headquarters for decision, and it is evidently the Army's intention to ensure extension of such procedure throughout the country by the removal of obstinate Chinese and the placement of Army-minded Japanese in charge of all General Affairs sections and other consequential organs.

The informant feels convinced that the developments above described portend serious consequences for foreign interests in Manchuria. He is of the opinion that henceforth it will be of practically no use for foreign consular representatives or firms to submit important requests or complaints to "Manchukuo" central or other authorities, and that the only way in which they can hope to secure favorable action is through prior direct appeal to military quarters.

The informant's explanation of the recent government changes in question is, as stated, in accord with indications from other sources, and seems to account for all of the reported circumstances in a rational manner. However, only time can demonstrate the degree of accuracy of his observations and predictions; and this office will watch the situation closely and report such additional comments or modifications of views as events may seem to justify. On the basis of present indications, I am inclined to agree with the informant's pessimistic outlook and to feel that, until such time as the Military's hold on Manchurian civil administration may be broken by force of public opinion in Japan or international developments, the fate of every issue of consequence will, even more than hitherto, be decided according to the policies of the Kwantung Army. If this is the case, the

†Despatch No. 102 of May 25, 1935. [Footnote in the original; despatch not printed.]

Army's attitude towards such questions as the abandonment of extra-territoriality, status of foreign consuls, continuation of foreign business enterprise in the country and possible attempts to force recognition through pressure on local foreign interests becomes, of course, of even more vital concern than formerly; and the likelihood of important developments in respect to such issues in the near future would appear appreciably increased.

Respectfully yours, JOSEPH W. BALLANTINE

793.94/7024 : Telegram

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

PEIPING, June 11, 1935—11 a. m.
[Received 3:09 p. m.]

148. 1. I am confidentially informed by ranking official of the Foreign Office that the Chinese Government is still uncertain as to whether or not Japanese troops may yet take direct action in North China and that this uncertainty will continue until after the Japanese military conference scheduled to be held at Tientsin tomorrow and after the expected arrival on the same day of Japanese reenforcements from Dairen originally stated to have been sent to Tientsin as replacement troops.

2. The official stated, however, that it was not anticipated that the Japanese forces would occupy the Peiping-Tientsin area with a view to including it in the demilitarized zone; the Japanese forces desired rather a Chinese administration in the North financed by China and compliant to their wishes. The Japanese Army spokesmen had orally demanded the elimination from North China of Yu Hsueh-chung and other officials, the removal from Hopei Province of the remaining units of the northeastern armies (chiefly Yu's 51st Army Corps) and of all Central Government troops in addition so that the area would in fact be demilitarized, and the suppression of the Kuomintang and other organizations inimical to Japanese. He said that the Chinese had now complied with all these demands in fact or in principle.

3. The Japanese military *démarche* in North China, he stated, was undertaken without the consent or prior knowledge of the Foreign Office and the responsible Japanese military officers in the North had, according to reliable information received by the Chinese Foreign Office, vitiated their scheme against even the instructions of the General Staff although possibly with the tacit consent of the War Minister who at least during his visit to "Manchukuo" has been under the domination of the Kwantung Army.

4. With surprising frankness the official took pains to say that the outbursts of the Japanese military against General Chiang Kai-shek

were due to their knowledge that Chiang is irreconcilably anti-Japanese and that while he has been making conciliatory public statements in connection with the Sino-Japanese "rapprochement" he has meanwhile continued his unremitting efforts to strengthen the national defense and has been the moving spirit behind continuing anti-Japanese activities. The official stated that the steady increase in Chiang's personal power and prestige, with consequent progress in the unification of China, was alone sufficient to cause the Japanese to consider him their worst enemy in this country; in addition, he said, no one in China is more anti-Japanese than Chiang Kai-shek and the Japanese have come to realize this fact.

For the Minister:
ATCHESON

793.94/7023 : Telegram

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

TOKYO, June 11, 1935—5 p. m.
[Received June 11—9:25 a. m.]

128. Crisis in North China. The assistant liaison officer in the office of the Ministry of War called at his own request on our Military Attaché at noon today to explain the situation in North China. He has been friendly, communicative and accurate in the past but today for the first time he showed clearly that he had been directed to deliver a special message substantially as follows:

(1) Japanese Army officers in China and the military authorities in Tokyo are satisfied with the reply received from General Ho Ying-chin although they had wished the reply to come direct from Chiang Kai-shek.

(2) Compliance with the general Army demands will remove from North China the troops, anti-Japanese organizations and individuals considered objectionable and they will be replaced with pro-Japanese officials and acceptable Nationalist troops for the preservation of order.

(3) Being suspicious however of Chinese sincerity in fulfilling the promises made, the Japanese Army is taking the precautionary measures of sending a small contingent of troops from the Tientsin garrison to Peiping and other troops from the Kwantung Army to Kupehkow and Shanhaikwan and of stationing an air unit at Chinchow. General staff headquarters at Tokyo however have forbidden the movement of the troops from the Kwantung Army south of the Great Wall without imperial sanction in order to prevent premature action by headstrong local commanders. It appears that this precaution was taken at the request of the Premier who is said to have been worried over the situation.

(4) Movement of troops out of Hopei Province has begun and barring accidents should be completed by the end of June but the Japanese Army has set no time limit for their evacuation.

(5) At first the Japanese North China garrison, it is believed, wished to establish a buffer state in North China or to extend the demilitarized zone to include Peiping and Tientsin but such ideas have been abandoned because of the disapproval of the military authorities in Tokyo. The Tokyo military authorities desire only a peaceful North China with no political change.

The above information was given in confidence for official use only and not for publication either in the United States or in Japan.

Repeated to Peiping.

GREW

793.94/7025 : Telegram

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

PEIPING, June 11, 1935—9 p. m.
[Received June 11—3 : 50 p. m.]

263. Presumably for the purpose of improving Japanese feeling the National Government issued a mandate June 10 which tells the Chinese people to be sincerely friendly to friendly countries and which "prohibits" words or actions provocative of ill feeling and any sort of organization which constitutes an obstacle to international relationships.

It is believed that the immediate intentions of the Japanese military with regard to North China may be better understood following the meeting of their leaders at Tientsin June 12.

A Rengo report claims that the Japanese have demanded the dissolution of the Peiping branch political affairs committee and the Peiping military council. From statements made in strict confidence by a Chinese official [it] appears that such a demand may have been made or is anticipated. This Rengo report of recent Japanese demands indicates Japanese intention to remove from all of Hopei Province Chinese political and military control and not limited to withdrawal to Paoting.

JOHNSON

793.94/7027a : Telegram

The Acting Secretary of State to the Second Secretary of Legation in China (Atcheson), at Nanking

WASHINGTON, June 12, 1935—2 p. m.

46. Associated Press report from Nanking under date line June 12 states that Central Political Council, meeting in urgent session closed to the press and to the public, was reported today to have rejected the Japanese demands affecting North China; that Chinese reports of the meeting stated that the Council had telegraphed Ho Ying-chin in-

structing him to "prepare for eventualities should the Japanese carry out threats to advance upon Peiping and Tientsin."

Please investigate accuracy of report and send reply as soon as practicable.

PHILLIPS

793.94/7092

The Chinese Foreign Office to the Chinese Legation[74]

NANKING, June 12, 1935.

Under the pretext that Peiping and Tientsin have been used as bases of operation against Japan and Manchuria and for such acts as the assassination of the two Chinese named Hu and Pei in the Japanese Concession in Tientsin, Colonel Sakai, representing the Japanese troops in Tientsin, and Colonel Takahashi, Japanese Assistant Military Attaché, verbally made upon General Ho Ying-ching, Minister of War, on May 29th, the following demands:

1. That the demilitarized zone will be extended to include Peiping and Tientsin if these places continue to be used as bases of operation against Japan and Manchuria.
2. That the Japanese army will take drastic action if there is a recurrence of incidents similar to the assassination of Hu and Pei.

After this conversation General Ho, on his own initiative, ordered the dissolution of several organizations to which the Japanese objected. The Central Government also on its own initiative changed the Chairman of the Hopei Provincial Government and the Mayor of Tientsin.

On June 9th, Colonel Sakai and others again made orally the following demands on General Ho, setting noon of the 12th as time limit for reply:

1. The dissolution of all Kuomintang (National Party) branch offices in the Hopei Province,
2. The withdrawal from Hopei of the 51st Army under General Yu Hsueh-chung,
3. The withdrawal from Hopei of the two army divisions stationed there by the Central Government,
4. Prohibition of all anti-Japanese agitations throughout China.

In the afternoon of the 10th, General Ho orally replied that action had been taken on all of the above-mentioned demands. Furthermore, the Central Party Headquarters had ordered the winding up of the Kuomintang branch offices in Hopei and the Central Government had reissued its decree concerning good neighborly relations. The

[74] Translation of telegram left at the Department by the Chinese Minister, June 13.

incident was supposed, in the opinion of Chinese and foreign circles, to have been closed. On the following day (June 11th), even Mr. Okada, the Japanese Premier, reported to the Japanese Cabinet the settlement of the North China incident.

Notwithstanding this, Colonel Takahashi handed to General Ho on June 11th a draft memorandum, which was divided into two parts: the first part requiring China to agree to carry out the demands made by the Japanese army, and the second requiring China to agree to the following terms:

1. No employment or reinstatement of officials and no revival of organizations unfavorable to Sino-Japanese relations shall be permitted,
2. In the appointment of officials in the Hopei Provincial and Municipal Governments the wishes of the Japanese shall be followed,
3. The Japanese are to supervise and inspect the execution of the above-mentioned terms,—with the request that General Ho have the draft copied, sealed, and delivered to the Japanese, to which General Ho refused. The situation is exceedingly critical at the present moment. We have done our utmost to save the situation. Whether or not the Japanese will resort to military action is not yet known.

793.94/7032 : Telegram

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

PEIPING, June 13, 1935—10 a. m.
[Received June 13—8 : 15 a. m.]

149. My 148, June 11, 11 a. m. I learn from reliable Chinese official source that the Japanese military in the north are now demanding: (1) that in future no Central Government troops be stationed north of the Yellow River, (2) that Ho Ying-chin give a written undertaking of compliance with Japanese suggestions concerning North China, and (3) that Chiang Kai-shek himself return to Nanking to meet with Japanese military officials with a view to the adoption of a definite and "sincere" policy of Sino-Japanese "cooperation".

2. A report from dependable foreign source has been received here that yesterday 5,000 Japanese troops reached Shanhaikwan and were preparing to entrain for Peiping and that with them were 600 Japanese railway employees.

3. Nanking is upset by rumors arising from meetings yesterday of National Defense Council, Central Executive Committee, Central Political Committee and a conference last night between Wang Ching-wei, Sun Fo, H. H. Kung, T. V. Soong and other leaders [and?] continuing today and which replaces the Hankow conference mentioned in my 139, June 5, 10 a. m. According to an unconfirmed report

from Chinese sources the conferees named are considering favorably a proposed reorientation of Chinese foreign policy the principal tenet of which is an attempt to form some kind of Sino-Japanese political partnership as a last hope of blocking further advance of Japanese to begin [*of Japanese military?*] on the Asiatic continent.

4. To Tokyo by mail.

For the Minister:
ATCHESON

793.94/7028 : Telegram

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

NANKING, June 13, 1935—11 a. m.
[Received June 13—3 : 54 a. m.]

150. Department's June 12, 2 p. m. just received. I am investigating the report. My information at this time is that the Council feels it impossible to accept the further Japanese demands mentioned in my 149, June 13, 10 a. m., namely, that the Chinese give written undertaking of compliance with the previous demands, that Chiang Kai-shek come to Nanking to meet with Japanese military officials, and that no Central Government troops be stationed north of Yellow River. I am informed by source close to important Government leaders that Government fears it will fall if it signs formal undertaking and that Chiang cannot risk further loss of prestige by returning here pursuant to a Japanese command. Department's message and this preliminary reply repeated to Peiping.

For the Minister:
ATCHESON

793.94/7034 : Telegram

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

PEIPING, June 13, 1935—noon.
[Received June 13—11 a. m.]

268. Japanese press reports that the Japanese Military are taking a serious view of an "insult" to Japan which took place at Kalgan on June 5 (Chinese version, June 4) and which Japanese regard as more serious than another "Yu Hsueh-chung North China affair". According to the Japanese press four Japanese military arriving at Kalgan were stopped by the Chinese military and although they had proper documents were illegally detained for 18 hours during which time they received insulting treatment. The Chinese press states that the Japanese had no proper documents. According to a press

correspondent the Japanese military at Tientsin are awaiting the arrival of a Japanese officer from Kalgan to learn the details of the incident and to decide what action to take in regard thereto. Although it is impossible to foretell what use the Japanese military may make of this incident to forward their aims with respect to Chahar it is possible that they may use it to effect the elimination of Sung Che-yuan whom they dislike or that they may use it in furthering their efforts to separate Inner Mongolia from China (see my telegram 230, May 31, 4 p. m., paragraph 3).

JOHNSON

793.94/7031 : Telegram

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

NANKING, June 13, 1935—1 p. m.
[Received June 13—7:16 a. m.]

151. My 150, June 13, 11 a. m.

1. I learn from authoritative official source that Council decided to reject fresh demands which, in addition to those described in my 150, included:

(1) Japanese supervision of steps taken in compliance with the previous demands;
(2) the setting up in North China of a "Neutral Commerce [*Committee?*]"; and
(3) Japanese approval of all officials appointed in that area.

The decision was not to refuse compliance with the previous demands, all of which have been or are being fully acceded to.

2. The informant states that Takahashi on June 11 presented to Ho Ying-chin for signature a written form of agreement to previous demands and fresh ones above mentioned. Ho telegraphed for instructions and Council decided it must direct him not to sign and to prepare for eventualities, this decision being based upon reasons cited in my June 13, 11 a. m., and because of feeling that although the Chinese were faithfully complying with previous demands, it now seemed that Japanese requirements would be unending and the Chinese Government would have to stand firm at some point.

3. Other sources confirm the above. Chinese Government circles are gravely concerned, a spirit of hopelessness is apparent and it is openly feared that when new Japanese Ambassador presents his credentials Japanese troops will be occupying Peiping.

4. Despatch to the Department and Peiping.

For the Minister:
ATCHESON

793.94/7030 : Telegram

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

NANKING, June 13, 1935—2 p. m.
[Received June 13—7 : 03 a. m.]

152. 1. Reliably reported that Central Political Council this morning passed resolution to following effect:

Ho Ying-chin should inform Japanese military authorities in writing: (1) that the Chinese have accepted and are complying with all Japanese demands presented prior to June 11th and (2) that if the Japanese Army has further demands they should be presented to the Chinese Government at Nanking through usual diplomatic channels.

2. Ho Ying-chin is en route Nanking by plane and it is now generally believed here that Japanese troops will take no direct action in Tientsin-Peiping area until tomorrow or next day after he has had opportunity to confer with his Government.

3. Ariyoshi is calling upon Wang Ching-wei late today.

4. Despatched to the Department and Peiping.

For the Minister:
ATCHESON

793.94/7037 : Telegram

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

NANKING, June 13, 1935—3 p. m.
[Received June 13—1 : 40 p. m.]

153. My 151, June 13, 1 p. m., paragraph 2.

1. It is reported that when presenting agreement for Ho's signature on June 11, Takahashi suggested that rejection of the fresh stipulations might make necessary a reorganization of the National Government to provide a regime with Tuan Chi-jui [75] as chairman and that this evidence of the insatiable character of Japanese ambitions was a determining factor in the decision of the Central Political Council, referred to in paragraph 1 of my 151. This report states that the fresh requirements of the Japanese included, one, that China should cease relying upon Western powers to counteract Japanese activities, and another that Japanese should be invited to participate in any foreign loan made to China.

2. There is speculation here whether, in the event of Sino-Japanese clash in the North, Yen Hsi-shan, his adherent Shang Chen and Han Fu-chu would remain loyal to National Government. Han, however, is apparently in bad odor with the Japanese; Suma of the Japanese

[75] Provisional Chief Executive at Peking, November 1924–April 1926.

Legation states that Han is "involved" with Yu Hsueh-chung and that unless he takes care the Chinese will "lose everything, Shantung also."

3. Suma states further that there is no possibility of the Chinese attempting armed resistance against Japanese troops in North China and that any announced rejection of Japanese demands will be for face-saving purposes and without substance.

4. Central Political Council last night decided to send Tang Yu-jen to Szechwan to see Chiang Kai-shek but altered this decision because of time element and despatched a lengthy telegram to Chiang asking his instructions. It is said that the question of armed resistance will depend upon Chiang's reply.

For the Minister:
ATCHESON

793.94/7038 : Telegram

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

PEIPING, June 13, 1935—3 p. m.
[Received June 13—2 : 50 p. m.]

270. General Ho Ying-chin accompanied by Mrs. Ho left Peiping at 3 a. m. this morning by special train [*plane?*]; responsible Chinese official called on me at 11 a. m. and presenting General Ho's card stated that Ho had gone to Nanking to report on his negotiations with the Japanese and to seek instructions. He stated that the difficulty was that the Japanese did not seem to know what they wanted; that they had made certain oral demands, namely, the dismissal of Yu Hsueh-chung, the removal of all Kuomintang agents from the Province of Hopei, the departure of all Government troops from Hopei, the removal of the *gendarmerie*, and the abolishment of anti-Japanese organizations; and that all of these things had either been done or were in process of being carried out but that one never knew when the Japanese might not return with some new request.

This official said that the Japanese came to see Ho on June 11 and presented a draft of a document which they asked him to sign. The document itself was in four parts. Paragraph 1 set forth what the Chinese Government had done specifically to meet the desires of the Japanese. Paragraph 2 was an undertaking on the part of Ho that none of the people involved in the Japanese desires, namely, General Yu, the Kuomintang personnel, the Chinese Government armed forces, the *gendarmerie*, or anti-Japanese organizations, would return to this area. Paragraph 3 stated that the Government would appoint officials in this area who would be both pro-Japanese and pro-"Manchukuo." Paragraph 4 agreed that the Japanese would be

permitted to assign "inspectors" here presumably for the purpose of seeing that these terms were carried out. According to my informant, Ho refused to sign this document and stated to the Japanese officials that they had requested orally that the Chinese carry out certain of their desires voluntarily which the Chinese were in the process of doing and that he was in no position to sign any such document.

Residents of Peiping are highly apprehensive of political developments and some Chinese are leaving. There are many reports and rumors. These lend support to the opinion that the Japanese military is progressing toward elimination of control of North China by the National Government as well as support to the opinion that future developments will include a North China under pressure [by] Japanese or "traitor" Chinese guided by Japanese. Among the possible Chinese of this sort are mentioned Yen Hsi-shan and Sun Chuan-fang.[76] Many emissaries are said to be visiting the former, while the latter's name is mentioned because the new head of the public safety bureau at Tientsin Liu Yu-shu is a former officer of Sun who is in retirement at Tientsin. My informant of the first paragraph stated that the Japanese are inciting Liu Kuei-tang to make trouble. There are also rumors of a separatist movement among Chinese antagonistic to Chiang Kai-shek while [*sic*] since rumors have arisen as a result of the presence in Peiping during the past week of Prince Kung, cousin of Pu Yi, who is said to have assisted Doihara in the establishment of "Manchukuo."

JOHNSON

793.94/7036 : Telegram

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

NANKING, June 13, 1935—5 p. m.
[Received June 13—1 : 20 p. m.[77]]

154. 1. A high Chinese source states that no Japanese demands were formulated in Shantung and that they were added to by local Japanese military before presentation to Ho, that Ho was accordingly given notice to repudiate the additions and by the night of June 10th considered that the crisis had definitely passed. The sudden presentation of document embodying both offers and new demands on June 11th was completely unexpected and indicated that the Kwantung Army had acquiesced in the additions desired by Japanese military in North China.

2. This informant states that the far-reaching character of the Japanese demands was due to what he states is now proven fact that

[76] Military Governor of Chekiang and Kiangsu until March 1927.
[77] Telegram in two sections.

Japanese found upon Sun Yung-chin orders covering anti-Japanese activities received from Chiang Kai-shek personally.

3. Same source states that a telegram has just been received from official source in Peiping that municipal authorities there are preparing to abandon their posts.

Despatched to the Department and Legation.

For the Minister:
ATCHESON

793.94/7035 : Telegram

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

PEIPING, June 13, 1935—5 p. m.
[Received June 13—1:25 p. m.]

271. Legation is reliably informed that pamphlets have been distributed here this afternoon denouncing Chiang Kai-shek and advocating an independent state. Among the names mentioned in the pamphlet as sponsors of the movement are Tsao Ju-lin [78] and Sun Chuan-fang.

Legation is also informed that Chahar official called today on Japanese Assistant Military Attaché to apologize for recent incident (Legation's 268, June 13, noon) and was told that it was too late for apology and that military would decide what action should be taken in regard thereto.

Repeated to Nanking and Shanghai.

JOHNSON

793.94/7044 : Telegram

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

NANKING, June 14, 1935—11 a. m.
[Received 2:20 p. m.]

155. 1. The political Vice Minister for Foreign Affairs called me to the Foreign Office this morning. He stated that the situation in the North was very grave and full of danger, that the Legation and the Department had doubtless read considerable Japanese propaganda concerning it in the press and that he desired to tell me, not as Chinese propaganda, but by way of informing the American Minister and the American Government confidentially as to the facts of the matter. He said that the Chinese Minister in Washington had in addition been instructed to keep the Department informed.

---

[78] Minister of Communications at Peking until May 1919.

2. The following is the substance of his oral statement which he presented in a somewhat confused form:

(1) On the afternoon of May 29 Takahashi, Assistant Military Attaché in Peiping, and Sakai, Chief of Staff of the Tientsin Japanese garrison, called on Ho Ying-chin and while they presented no demands they called Ho's attention to the following two "considerations": (1) that Peiping and Tientsin were being used as bases for activities directed against Japan and "Manchukuo", and (2) the assassination of two Chinese editors in the Japanese concession May 3d was a provocative and antiforeign act in violation of the Tangku Truce and the Boxer Protocol and was committed by "Blue Shirts" of Chiang Kai-shek. (The Vice Minister stated emphatically that no such organization exists.) Sakai offered his personal opinion that Yu Hsueh-chung, Chairman of the Hopei Provincial Government, should be removed.

(2) On June 9 Takahashi and Sakai called again on Ho and orally presented the following demands: (1) that the Peiping and Tientsin Tangpu should be closed, (2) that Yu's 51st Army Corps should be transferred from Hopei, (3) that the 2nd and 25th Divisions should leave the province, and (4) that all organizations in North China considered by the Japanese to be objectionable should be disbanded and suppressed.

The two Japanese officers intimated that failure to comply might result in an extension of the demilitarized zone to include Peiping and Tientsin.

(3) On June 10 the same officers once more called upon Ho and informed him that he must give a favorable reply to the June 9 demands by June 12th, 12 noon. The evening of June 10 Ho replied agreeing to the demands and pointing out that they were being complied with—the political training corps of the branch military council had been abolished, Tangpu offices and the headquarters of the Hopei Provincial Government were being removed to Paotingfu, the National Government had transferred General Yu and assigned his army elsewhere, the other troops were being transferred, a new mayor had been appointed for Tientsin, and the National Government had issued a mandate against anti-Japanese activities of any kind. Ho's reply was received by the Japanese military officials as satisfactory and it was considered that the crisis had passed, the Japanese Premier so reported to the Japanese Cabinet.

(4) On June 11 Takahashi called again on Ho and handed him a "memorandum". He demanded that Ho make a copy of the document, seal the copy and send it to him. The memorandum set forth the demands already made and supplemented them with what the Japanese termed "additional matters": (1) The removal of the troops within a time limit must be under Japanese supervision, (2) there must be consultation with the Japanese authorities in North China concerning all Chinese provincial and municipal appointments, and (3) anti-Japanese activities and organizations must be completely suppressed in all parts of China. On this occasion Takahashi threatened that rejection would make it necessary for the Japanese forces to take "appropriate measures."

(5) The Chinese Government had directed Ho to decline to sign or seal the document.

3. The Vice Minister stated that the Chinese Government would be pleased to learn the attitude of the American Government in respect to the developments in North China which he had just described.

4. As this telegram is being sent the newly appointed Japanese Ambassador to China is presenting his credentials.

5. Despatched to the Department and Legation.

For the Minister:
ATCHESON

793.94/7042 : Telegram

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

PEIPING, June 14, 1935—noon.
[Received June 14—9 : 33 a. m.]

274. Following from American Consul General at Mukden:

"June 13, noon. Japanese press despatch today published Kokutsu Peiping despatch reporting that, taking advantage of the North China affair, Hopei, Shantung, Shansi and Chahar are forming a political bloc in opposition to the Nanking Government and the Kuomintang and that this has served in fact to put an end to Chiang Kai-shek's unification policy. The despatch states that the new North China regime lacks the antiforeign complexion of the Kuomintang which makes it clear that it will follow a pro-Japanese and pro-Kuomintang [*anti-Kuomintang?*] policy. The report forecasts that as the bloc extends, a new nation hostile to Chiang will develop, and notes that high hopes are entertained by the populace in regard to the future developments of autonomy in these four provinces."

Repeated to Nanking. JOHNSON

793.94/7046 : Telegram

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

NANKING, June 14, 1935—noon.
[Received 2 : 55 p. m.]

156. 1. From what I have learned from other sources I consider outline of developments in my 155, June 14, 11 a. m. a fair and honest opinion subject to criticism chiefly in its understatement. While the additional demands reported in previous telegrams and the press may not all have been written into the memorandum which Ho was asked to sign on June 11, it is my understanding that they were actually presented in some form by Japanese military officials to Chinese officials in the North. The spokesman [?] in particular informed that there were so many Japanese Military Attachés and spokesmen of various Japanese military agencies (Kwantung Army, Tientsin garrison, General Staff, War Ministry) that it was difficult to keep accurate count of every Japanese warning, proposal, demand,

threat or restriction which had been laid before Ho and other Chinese functionaries in Hopei. Upon my mentioning that I had heard that the additional demands of June 11 included the removal of Chinese Government troops from the area north of the Yellow River and the return of Chiang Kai-shek to Nanking, he denied that any new demands had been made. Another responsible official of the same Ministry, however, and sources close to the Central Political and National Defense Councils stated that they were among those listed in the June 11 memorandum.

2. It seems generally the policy of the Chinese Government to minimize matters in respect to the current situation in the north and press reports reaching Nanking today state that the Japanese military are now denying that fresh demands were presented June 11; this may possibly be a hopeful sign.

3. I have so far been unable to learn what transpired at meeting late yesterday of Ariyoshi and Wang Ching-wei. It is reported that the Japanese are continuing to press for the return to Nanking of Chiang Kai-shek, but the requirement is now said to be that he come here to talk with Ariyoshi rather than with Japanese military representatives. This may indicate a belated disposition on the part of the concerned Japanese military authorities to bring the Foreign Minister actively into the situation, possibly as a means of counteracting the notoriety which is expected from their disregard of the civil branches of the Government and possibly to obtain the Foreign Office stamp of approval upon their actions in the north.

For the Minister:
ATCHESON

793.94/7039 : Telegram

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

SHANGHAI, June 14, 1935—1 p. m.
[Received June 14—8:05 a. m.]

312. 1. This morning's *North China Daily News*, Shanghai, carries United Press report Peiping date line June 13th as follows:

"'China is now friendless', Major Takahashi, the Japanese Military Attaché, told the United Press in an interview today. 'Friendship with the U. S. S. R. brought communist troubles to China', he continued, 'and the United States is not a friend, but an enemy, as is shown by the United States silver-buying policy, which is most harmful to the interest of this country. American economic aggression in China is more serious than Japanese military policy'."

2. This is the second instance which has come to the notice of this office wherein the United States economic policy has been publicly de-

nounced as more harmful to China than Japanese military aggression. Please see my telegram 214, May 3, 4 p. m.[79]

Repeated to Legation.

CUNNINGHAM

793.94/7045 : Telegram

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

PEIPING, June 14, 1935—4 p. m.
[Received June 14—3 : 10 p. m.]

275. No known major developments have occurred in this area during the past 24 hours.

Great uneasiness continues to exist in Peiping. Chinese officials express apprehension that administration of North China will be put in the hands of Chinese opposed to Nanking. However, the difficulty of obtaining accurate information from either Japanese or Chinese sources makes an accurate and full account of day-to-day developments impossible. Chinese officials here profess to know little of what is going on.

There is a considerable number of troops at Kupehkou and some have advanced to Miyün. The Chinese press state that there are 300 at Miyün; Takahashi admits that "some" are there, claiming that their presence is due to inadequacy of accommodations at Kupehkou.

Military sources report that one Japanese mixed brigade of four or five thousand is at Shanhaikwan and that there are eight empty trains there also. Japanese replacements said to number 1,700 have arrived at Tientsin and Takahashi is authority for the statement that old troops will leave when tension has ceased there.

Takahashi has stated that the Chahar incident is the only major incident remaining unsettled; that demands have not yet been formulated; and that it has not been decided to whom the demands will be presented.

Reverend Winans of American Methodist Mission at Changli reports that on June 11 Japanese military opened a hole in the wall of the mission compound at Shanhaikwan and proceeded to stable 120 horses. Only Chinese are living in compound. Matter was taken up by Winans with commander of Japanese troops at Shanhaikwan who stated that horses would be removed and that it was not realized that property belonged to American mission. The matter has been brought to the attention of Japanese consular authorities at Tientsin by the Consulate General.

Repeated to Nanking.

JOHNSON

---

[79] *Ante*, p. 147.

793.94/7041 : Telegram

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

NANKING, June 14, 1935—5 p. m.
[Received June 14—10 : 50 a. m.]

159. I am confidentially informed by head of a government ministry that Chiang Kai-shek will probably come to Nanking and may arrive tomorrow. Ho Ying-chin, he states, did not reach Nanking until this afternoon, having stopped over at Paotingfu. He states further that the situation looks a little better today than yesterday but no matter what turn events may take China has already done everything possible to accommodate the Japanese and can do no more.

For the Minister:
ATCHESON

793.94/7043 : Telegram

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

PEIPING, June 14, 1935—6 p. m.
[Received June 14—1 : 38 p. m.]

276. Legation's 274, June 14, noon. Following from American Consul General at Mukden.

"June 14, 3 p. m. My June 13, noon. Local press today published obviously inspired reports alleging that Chiang Kai-shek is supplying arms to Chahar chairman and urging him to continue anti-Japanese activities and to maintain contact with Outer Mongolia and Soviet Russia. Reports add that former northern clique leaders are urging Chiang to endeavor embroil Japan lobby [*military?*] with powers having North China interests."

JOHNSON

793.94/7134

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

No. 1350 TOKYO, June 14, 1935.
[Received June 29.]

SIR: I have the honor to offer the following analysis and evaluation of the various causes which influenced the Japanese military in their recent successful attempt to exert pressure upon the Chinese administration in North China. Very little information has been given out officially by the Japanese governmental departments concerned as to the underlying causes and objectives of the action of the military—so little that it seems probable that the Japanese military authorities themselves were uncertain as to the exact scope of their immediate de-

sires and the method of procedure. In view of this paucity of official information, the Embassy has had to base its analysis upon such unofficial sources of information as were available.

There now appears to be no doubt that the immediate objective of the Japanese military, in their activities in North China, has been to rid North China, especially the Peiping-Tientsin area, of all organized elements hostile to the Japanese, in order to avoid the annoyance and expense of constantly defending "Manchukuo" against the "bandit" menace and other subversive activities, and, as a corollary, to secure such political control over North China as to prevent such anti-Japanese elements from again obtaining a foothold in the district. It is impossible to say what plans the Japanese military have in regard to the eventual fate of North China—it is doubtful if even the military, who apparently have been following an opportunist policy, have any definite scheme in mind. It is possible that they may endeavor to create there a buffer zone in the form of an autonomous state friendly to Japan, as is known to be the wish of some of the younger officers, or they may even go so far as to attempt to restore the Dragon Throne to Pu Yi, thus creating a vast Manchuria-North China empire under the control of Japan. Such future steps, however, cannot be predicted, and for the present it can only be said that the immediate objective of the Japanese military was to eliminate from territory contiguous to "Manchukuo" all elements opposing Japanese interests and to ensure that elimination in the future by securing a degree of political control over the territory.

The Japanese military, however, have presumably had this objective in view for some time past, and therefore the question arises of the reasons which impelled them to take the action which they did at this particular time and which impelled them to ignore the usual diplomatic channels in their negotiations. The Embassy has been able to obtain no definite official information in regard to these reasons, but offers the following as the opinions of well-informed observers.

1. *The Army's Opposition to Hirota.*

When Mr. Hirota assumed the post of Minister for Foreign Affairs nearly two years ago, his appointment pleased rather than displeased the Japanese military. Mr. Hirota had for long been associated with the Black Dragon and other ultra-patriotic and reactionary societies, and had the reputation of being a stanch patriot. For over a year past, however, the Army has been growing dissatisfied with Mr. Hirota's diplomacy, because of its pacifist and conciliatory methods. The Army feels that the Chinese are insincere in their moves for reconciliation with Japan; that they have been deluding the Japanese and causing the Japanese to appear ridiculous in the eyes of the world; and that the only method of dealing successfully with the Chinese is by using the mailed fist. The situation as between the Japanese Foreign Office and the Army thus was much as it was in September of 1931, when

792998—53——23

the Army, disgusted with the peaceful and conciliatory methods of the "Shidehara [80] Diplomacy", decided to take matters in its own hands. The Army also believes, it is reported, that Mr. Hirota has ambitions in regard to the Premiership, and, with the idea that he can create fame for himself and thereby win the coveted post by settling Japan's problems through peaceful diplomacy, is willing to sacrifice Japan's best interests (as the jingoists see them) for the sake of his own prestige. The Army therefore decided to deal Mr. Hirota a blow from which it would take him long to recover by taking steps in contradiction to his conciliatory policy toward China, and at the same time to teach the Chinese, and especially Chiang Kai-shek, the uselessness of insincerity, procrastination and "two-edged diplomacy" in dealing with Japan.

2. *The Raising of the Legation in China to an Embassy.*

As is well known, the Japanese Army was distinctly opposed to the gesture of Mr. Hirota in raising the rank of the Japanese Legation in China to that of an Embassy, at least at the present time. The grounds for the Army's objections have never been clearly defined, but it is the opinion of some observers that the Army does not relish the idea of having a Japanese civil official stationed in China whose rank will be higher than that of any Army officer on duty there, and whose position as direct representative of the Emperor would normally give him the authority necessary to control and perhaps curb the activities of the Japanese military in China. This was precisely the purpose of Mr. Hirota's step. It is therefore possible that one of the impelling factors of the recent activities of the Japanese military in North China was the desire to demonstrate, both to the Japanese Foreign Office and to the Chinese Government, that the Japanese Army has no intention of relinquishing to a civil official the predominant voice which it possesses in Japan's relations with China. This supposition is strengthened by the fact that in the early days of the recent Japanese activities in North China the Japanese Foreign Office was distinctly told by the Army not to interfere in the Army's negotiations with the Chinese authorities in North China.

3. *The Delayed "Crisis".*

The 1935–36 "crisis" in Japan's foreign relations, which the Army has been predicting in order to maintain its commanding position in the Japanese Government, has as yet failed to develop. The final withdrawal of Japan from the League of Nations (one of the predicted causes of the "crisis") was accepted by other nations with little comment and certainly without the rancor which the Japanese seemed to expect; the strained relations between Japan and the Soviet Union have been alleviated to a very considerable extent by the diplomacy of Mr. Hirota; and it appeared that consistent conciliatory effort on the part of Mr. Hirota was about to restore more amicable relations between China and Japan. It is true that the naval disarmament problem has not been settled, but this question alone is no more apt to create a crisis in Japan than in any other country party to the Washington naval treaty. The principal causes of a "crisis" in Japan's national life were therefore being rapidly eliminated, and it is possible that the

[80] Baron Kijuro Shidehara, Japanese Minister for Foreign Affairs, 1924–27, 1929–December 1, 1931.

Army decided that it was advisable, in order to maintain the "crisis" atmosphere and thereby retain its commanding position in the Government, to take drastic steps which would bring down upon Japan the criticism of the Western nations and the hostility of China. This theory is widely held by foreign observers.

4. *Budgetary Considerations.*

The 1936–7 budget is now in course of preliminary compilation. Judged from the criticism which the large defense appropriations in the 1935–6 budget provoked in the last Diet session, it appeared possible that the Army would find it difficult to obtain approval of its 1936–7 monetary demands, which, it is rumored, will be even larger than those of 1935–6. It is possible, therefore, that the Army wished to demonstrate to the Japanese nation the continued necessity of maintaining the strength of the Army for the purpose of keeping the "peace of East Asia".

It will be noted that the domestic factors which have been adduced as impelling causes of the recent activities of the Japanese military in North China are connected either with the Army's desire to maintain its position of predominance over the civil authorities in the Japanese Government, or with financial considerations. In the Embassy's despatch No. 1225, dated April 4, 1935,[81] it was pointed out that the possibility always existed that the Japanese military might on their own initiative take drastic steps in order to preserve their position of predominance in the affairs of Japan. It appears probable that the recent Japanese military activities in North China constitute an example of such an action. It can hardly be claimed that the anti-Japanese elements in North China constituted any real menace to the safety of either Japan or "Manchukuo", and, with all of Manchuria and Jehol to exploit, the Japanese nation can hardly lay claim to the immediate need of more economic elbow-room. It seems probable therefore that the recent steps taken by the Japanese military in North China may have been motivated more by domestic than by external considerations, although they were in line with the whole Japanese military plan of political control of northeastern Asia.

These recent developments have indicated once again, in no uncertain fashion, the divergence of the extremist and the moderate schools of thought and policy in Japan. It is known that both the Prime Minister and Hirota had audiences of the Emperor at the height of this crisis in North China and, according to general belief, counseled moderation. Signs were not lacking of a restraining influence at the height of the crisis, but whether this influence was exerted by the Emperor as a result of the representations by Okada and Hirota, or whether General Hayashi, the War Minister, and other older and saner heads among the military hierarchy called a halt to the extremist

[81] Not printed.

ambitions of the more chauvinistic elements in the Army must be a matter of speculation. It may at least be said with confidence that Hirota's influence is still a positive factor in the councils of the nation.

Respectfully yours, JOSEPH C. GREW

793.94/7050 : Telegram

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

TOKYO, June 15, 1935—1 p. m.
[Received June 15—10 : 43 a. m.]

129. 1. My British colleague informed me this morning of the receipt of instructions from his Government to inquire of the Japanese Government as to the accuracy of the report that the Japanese had demanded that the Chinese should appoint no officials in North China without their consent. If the report is stated to be accurate the Ambassador is instructed to inform the Japanese Government that such a demand constitutes a violation of the Nine-Power Treaty whereby among other things the powers undertook to respect the administrative integrity of China.

2. In view of the fact that on June 3 the Minister for Foreign Affairs informed the British Ambassador that the Japanese had no intention of demanding the inclusion of Peiping and Tientsin in the demilitarized zone and also in view of the fact that the Vice Minister informed him on June 8 that no ultimatum had been issued or could be issued by the military without the approval of the Japanese Government, the Ambassador proposes to send his Counselor to see the chief of the China Bureau at the Foreign Office today and to remind him of these assurances and to inquire as to the accuracy of the report mentioned above but without invoking the Nine-Power Treaty. The Counselor will also observe that the British Parliament is scheduled to meet next week and that questions concerning the reported action of the Japanese in China are practically certain to be asked. If the reply of the Bureau Chief should be unsatisfactory the Ambassador will see the Minister or the Vice Minister on Monday.

3. Clive feels strongly the desirability of avoiding invocation of the Nine-Power Treaty if satisfactory results can be obtained without such invocation in view of the irritation which such action would cause in Japan. I concur. He realizes, however, that he may find it necessary to take that step on Monday.

4. The British Foreign Office hopes that our Government will take similar action but Clive is to make his representation in any case.

5. In this connection Clive informs me confidentially that when the Chinese Minister for Foreign Affairs returned Cadogan's call on June

14, the Minister said that at the moment when the British Ambassador was with him that morning the Japanese Consul General had interviewed the Vice Minister for Foreign Affairs and had explained that the Japanese Government had not authorized these latest demands which were not official.

Repeated to Peiping.

GREW

793.94/7050 : Telegram

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

PEIPING, June 15, 1935—5 p. m.
[Received June 15—11 : 52 a. m.]

282. The situation remains outwardly quiet, but certain conditions of minor developments have occurred.

Japanese replacement troops, estimated to comprise from 250 to 300, arrived at Peiping June 14th. There have been arriving at Peiping during the last few days unusual numbers of Japanese and Koreans, this being an additional cause of uneasiness locally.

It is reported in today's press that the Peiping branch Military Council has announced that the Tientsin garrison headquarters has been changed into the headquarters of the Peace Preservation Corps of Tientsin and Tangku. Evidently this furthers the demilitarization of the area from Tientsin to the sea. All of Chiang Kai-shek's and Chang Hsueh-liang's troops are now as far south at least as Paoting. This leaves in the northern part of Hopei in addition to Shang Chen's men some 20,000 northeastern troops under Wan Fu-lin. These troops are regarded as poor fighters and as of doubtful loyalty to the National Government which may explain their continued presence. New groups of Japanese railway guard troops have arrived at various stations between Shanhaikwan and Tientsin apparently as replacements.

Chinese educators of Peiping are much concerned and are seriously discussing the alternatives of removing to the south or closing the five leading universities.

Nanking informed.

JOHNSON

793.94/7080

Memorandum by the Under Secretary of State (Phillips)

[WASHINGTON,] June 15, 1935.

The British Ambassador called this morning with regard to the Far Eastern developments. He said the Chinese Minister in London

had called upon the Minister of Foreign Affairs and had informed him that his Government, after accepting a number of demands of the Japanese military, had refused formally to agree to exclude from the Province of Hopei any person or organization whose conduct might prejudice Sino-Japanese relations and to allow Japanese authorities to supervise the execution of this condition. The British Foreign Office regarded the situation as very serious and that it clearly invoked the Article of the Nine Power Treaty stipulating consultation between the signatories to that treaty. Sir Ronald was asked to inquire whether we had received a similar communication from the Chinese; if so, what we thought of it, as well as our impression of recent events in China.

The Ambassador went on to say that on June 14th, the Foreign Office had instructed the British Ambassador at Tokio to ask the Japanese Government whether they have, as reported, demanded that China should not appoint officials in North China without Japanese consent. Furthermore, he was instructed to point out that if such a demand is made it constitutes a violation of the Nine Power Treaty in which the signatories undertook to respect the administrative integrity of China.

Sir Ronald thereupon said he was instructed to inquire whether the United States Government was inclined to send similar instructions to the American Ambassador at Tokio. In reply to my inquiry as to whether the British Government was making a similar *démarche* in the capitals of all the signatory powers of the Nine Power Treaty, the Ambassador replied that all of the powers were being acquainted with the instructions which had been given to the British Ambassador at Tokio, but that the United States was the only signatory which was being asked to send similar instructions to its representative in Tokio. I, thereupon, undertook to give the Ambassador our views of the situation: The Chinese Minister had, under instructions, kept us advised of his Government's attitude with respect to the Japanese demands; that the Minister had called upon me a day or two ago to ask of me certain questions for the purpose of record, but that before he had gone any further I read to him our latest report from Nanking, which indicated that the Chinese Government itself was consulting Chiang Kai Shek, now absent in the West, before taking a definite position vis-à-vis the Japanese demands and that on seeing this telegram Mr. Sze had expressed his desire to postpone asking any questions of the Department; I said that the Vice Minister for Foreign Affairs had discussed the matter with our representative in Nanking yesterday, and had stated that he would be glad to learn the attitude of the American Government in respect to the developments in North China;

we had not given any reply as yet to the Vice Minister's inquiry; moreover, the situation was changing from hour to hour and the reports coming in from various sources were conflicting and a further telegram from Nanking dated yesterday had indicated that the policy of the Chinese Government seemed to be to minimize matters in the North, and furthermore, that the Japanese military are now denying that fresh demands were presented on June 11th; the atmosphere, therefore, seemed to me cloudy and uncertain and we had been waiting for it to become a little clarified before considering the advisability of action vis-à-vis the Japanese; so far as I knew, Chiang Kai Shek had not as yet made any official statement and I understood that he was now actually on his way back to Nanking; I pointed out that our telegrams had indicated that the Japanese Ambassador would discuss matters with Chiang Kai Shek on his return and for the moment, therefore, it seemed that the Japanese Government was desirous of continuing the conduct of their negotiations with the Chinese through diplomatic channels rather than continuing them through the military authorities in North China.

Sir Ronald expressed the hope that if we were going to take any action in Tokio we do so promptly; he thought it would be a mistake to delay any such action, for example, until next week. I assured him that we would be glad to give his inquiry immediate consideration and that I hoped to furnish him with a prompt reply.

WILLIAM PHILLIPS

793.94/7055 : Telegram

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

Moscow, June 15, 1935—3 p. m.
[Received June 15—12 : 30 p. m.]

238. Dr. Yen, Chinese Ambassador to Russia, informed me that he received a telegram from Wang Ching-wei this morning saying that the idea that there is a real dispute between Hirota and the Japanese military authorities is erroneous; that the military authorities are in full control with Hirota acquiescent. He added that he had received a telegram from Chiang Kai-shek this morning from Chungking saying that he intended to remain in Szechuan to continue his campaign against the Communists and that he believed any attempt to oppose the Japanese by force would be disastrous.

BULLITT

793.94/7050 : Telegram

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

WASHINGTON, June 15, 1935—4 p. m.

93. Your 129, June 15, 1 p. m.

1. The Department appreciates the promptness with which you communicated this information.

2. This morning the British Ambassador called on the Under Secretary and, under instruction from his Government, communicated the information contained in your paragraphs 1 and 4.

3. Subsequently this morning the Japanese Ambassador called on me to present a member of the Japanese Diet. At the conclusion of the call the Japanese Ambassador remained and stated that this morning he had received a cable from the Japanese Foreign Minister expressing a desire that the Ambassador make known that there was nothing in all of the many reports, rumors and despatches coming out of China except an effort of the Japanese to have carried out two or three more or less minor things which they had asked the Chinese to do, including the transfer or removal of Yu Hsueh-chung. The Japanese Ambassador did not mention the other two things but proceeded to say that roving groups or small armed bands of Chinese had committed depredations upon Japanese interests. I at once replied that I was very much gratified to have this information directly from the Foreign Office of the Japanese Government. I said that with such a mass of rumors and reports, it was exceedingly important that the Japanese Foreign Office was taking these steps to keep the situation clarified; that the press of this and other countries is naturally filled with more or less alarming reports and comment that is undesirable from every standpoint. I said that lack of clarification by the Japanese Government might lead to representations from the parties having treaty rights and obligations and it would therefore be helpful if the Japanese Foreign Office continued to take action toward clarifying the situation. The Ambassador then said that the Japanese Foreign Minister had indicated that he would furnish supplemental information and I replied that this was exceedingly important and that I hoped that the Ambassador would keep in touch with the Department from day to day in connection with this entire matter.

4. Please telegraph urgently what action the British Embassy at Tokyo finally takes.

5. When reporting, please express your opinion whether it appears desirable that the American Government take any action in addition to that which has already been taken as described in paragraph 3 above.

6. Repeat to Peiping with request that Minister Johnson telegraph his comment directly to Department.

HULL

793.94/7044 : Telegram

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

WASHINGTON, June 15, 1935—4 p. m.

167. Nanking's 155, June 14, 11 a. m., to Department. On June 12 and June 13 the Chinese Minister here, under instruction from his Government, communicated in confidence to the Department information which is in substantial accord with that communicated to Atcheson and as reported by him in the first two main paragraphs of his telegram under reference.

Inform Tokyo.

HULL

793.94/7052 : Telegram

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

TOKYO, June 15, 1935—8 p. m.
[Received June 15—1 p. m.]

130. 1. As envisaged in paragraph 2 of my 129, June 15, 1 p. m. the British Ambassador before making any official representations to the Japanese Government or invoking the Nine-Power Treaty today sent his Counselor of Embassy [82] to speak to the Chief of the East Asia Department of the Foreign Office. Cunningham referred to the assurances already given the Ambassador on June 3rd and 8th and stated that in view of these assurances "His Majesty's Ambassador hesitated to believe report that military had demanded and that Japanese Government had endorsed demand that Chinese Government should appoint no high official in North China without Japanese approval."

2. The Chief of the East Asia Department replied to Cunningham in the following sense:

"Japanese Foreign Office was unaware that any demand had been made by military that no officials should be appointed in North China without approval of Japanese. He ridiculed idea that Japanese Government would endorse this but said that military in the course of conversation with Chinese authorities had pointed out that it had been presence of anti-Japanese officials that had caused recent troubles and they had indicated advisability of only appointing officials friendly to Japan."

[82] Wilfred Bertram Cunningham.

3. Clive proposes to see the Minister for Foreign Affairs early next week but considers it preferable to invoke the Nine-Power Treaty only in last resort and has so informed his Government. I agree with this opinion.

Repeated to Peiping.

GREW

793.94/7054 : Telegram

The Second Secretary of Legation in China (Atcheson) to the Secretary of State

NANKING, June 16, 1935—11 a. m.
[Received 11:20 a. m.]

163. 1. Reported alienation of Kwangtung, Kwangsi and Hunan is being officially denied but officials admit privately that disaffection exists in those provinces and the informant mentioned in my 162, June 15, 7 p. m.[83] states that this is the outcome of Japanese intrigue by Doihara, Admiral Hyakutake and others. It is also officially denied that Chiang Kai Shek received Hyakutake at Chengtu on June 7 but persistent reports state Hyakutake actually talked with Chiang there and then flew to Changsha with the result that Hunan was brought into the separatist movement.

2. I learn from authoritative source (although this too is officially denied) that on afternoon of June 13 Ariyoshi handed Wang Ching Wei an 8-point memorandum concerning Sino-Japanese issues. Huang Fu is understood to have arrived this morning to act in advisory capacity and to have reiterated his determination to resign his northern post. Chiang Kai Shek so far has not come to Nanking. Ho Ying Chin is reliably reported to have refused to return to Peiping to attempt settlement with the Japanese military and Government leaders fear that grave developments in North China may result.

3. Despatched to the Department and Legation.

ATCHESON

793.94/7056 : Telegram

The Second Secretary of Legation in China (Atcheson) to the Secretary of State

NANKING, June 16, 1935—3 p. m.
[Received 6:35 p. m.]

165. Shanghai's 315, June 15, 9 a. m.[83] Director of Department of Information and Publicity of the Foreign Office has informed me that

[83] Not printed.

censorship has been lifted on press despatches concerning situation in North China and an American newspaper correspondent from Shanghai confirms this statement.

ATCHESON

793.94/7059 : Telegram

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

PEIPING, June 16, 1935—7 p. m.
[Received June 16—4: 45 p. m.]

283. A Chinese official has informed the Legation in confidence that four demands have been made by the Japanese military with regard to the Chahar incident, namely, (1) an apology; (2) punishment of official responsible for the incident; (3) withdrawal one of Sung Cheyuan's divisions (believed to be in eastern Chahar); (4) promise of nonrecurrence of such an incident. The informant states that the Chinese have taken the following action: (1) a Chahar official is now on his way to apologize; (2) minor officials concerned will be dismissed; (3) the division will be withdrawn if another incident occurs; and (4) the fourth demand has been ignored. From this and other sources it is learned that there is reasonably good prospect that controversy will be adjusted but the matter has not yet been definitely concluded and has probably been referred to Hsinching by the Japanese military at Tientsin. The most important features of the demands as given above would seem to be the extent (as yet unknown) of the area which will be left without Chinese troops if withdrawal of the division in question takes place.

Although no new important developments have occurred in this [apparent omission], so far as can be ascertained, the situation continues unsettled as the departure of Ho Ying-chin leaves North China without a Central Government official of sufficient [prestige?] and caliber to deal with the Japanese and as the immediate intentions of the Japanese are still obscure. The situation has been helped somewhat by the absence of reports of disturbing statements being made by Japanese officers. One reason for this silence may be that they are awaiting action by Nanking with regard to their demands and the return to North China of Ho or some other responsible official. Both Chinese and Japanese are inclined to believe that Ho will not return in part because it is understood (according to his secretary) that Ho took his household goods with him.

Repeated to Nanking and Tokyo.

JOHNSON

793.94/7063 : Telegram

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

PEIPING, June 17, 1935—7 p. m.
[Received June 17—9 : 52 a. m.]

287. According to a Reuter report from Tientsin, General Doihara made the following announcement today:

"As far as the Kwantung Army is concerned the Chahar affair is still a very live issue. The Chinese have only accepted the demands made verbally by Colonel Matsui; but that is not all we seek."

It is stated that Matsui has gone to Changchun for instructions. No other developments of importance today except that Canton telegraphs that "present Canton atmosphere apparently more favorable to voiding cooperation with Nanking than to move for independent government".

JOHNSON

793.94/7082

Memorandum by the Under Secretary of State (Phillips)

[WASHINGTON,] June 17, 1935.

The British Ambassador called this morning at my request. I said that I desired to keep in close touch with him regarding developments in the Far East, and that, accordingly, I wished to read to him certain telegrams which had come in from Tokyo since our last talk. I then read to him Mr. Grew's telegrams Nos. 129, 130,[85] and 131.[86] It was evident, I said, that, since Ambassador Clive had not, in fact, made his representations to the Foreign Office along the lines of his instructions, the question which he (Sir Ronald) had raised with me on Saturday with regard to representations from the American Government did not require an immediate answer; that our respective Ambassadors were in close touch and in absolute agreement in the present situation, and Sir Ronald admitted that this was so. In view of Mr. Grew's No. 131, Sir Ronald agreed that undoubtedly Ambassador Clive was awaiting further instructions from London before calling upon the Japanese Foreign Minister.

Thereupon I informed Sir Ronald that, shortly after his call upon me on Saturday, the Japanese Ambassador had called upon the Secretary of State and had given certain information to the Secretary under instructions from his Government and that I desired to give Sir

[85] Telegrams dated June 15, 1 and 8 p. m., pp. 248 and 253.
[86] Dated June 17; not printed.

Ronald the substance of this information. I then read to him paragraph three of our telegram No. 93 to Mr. Grew,[87] which contained the report of this conversation. I added that, in the circumstances, we did not feel that we were in a position to make any representations as yet to the Japanese Government; that, in view of the conflicting reports which were coming from China and Japan, it was apparent that we did not have a clear knowledge of the situation; that, in any event, we felt that we must proceed with the utmost caution and that this was evidently the judgment of our respective Ambassadors in Tokyo.

Sir Ronald thanked me for the information, and, in particular, for informing him of the Secretary's remarks to Ambassador Saito. Before concluding the interview, I said that I would like to keep closely in touch with Sir Ronald on all aspects of the situation and would be happy to show him such telegrams as seemed particularly pertinent. The Ambassador expressed his thanks and appreciation.

WILLIAM PHILLIPS

793.94/7066 : Telegram

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

PEIPING, June 17, 1935—8 p. m.
[Received June 17—12 : 43 p. m.]

288. My 270, June 13, 3 p. m.; Tokyo's 128, June 12 [*11*], 6[*5*] p. m.; and Nanking's 155, June 14, 11 a. m. My informant set forth very accurately Japanese intent in recent happenings in North China and established the fact that Japanese will hereafter insist that at least in this area only officials acceptable to Japanese military will be permitted to function. Department will note disparity between these statements and those made by Japanese Ambassador as set forth in Department's 93, June 15, 4 p. m. to Tokyo.

I doubt value of inviting attention of Japanese Foreign Office to obvious contraventions of Nine-Power Treaty. The course of action in my opinion was determined upon by Kwantung military authorities without consultation with or approval of Japanese Foreign Office. I feel certain that recent moves in China were decided upon and carried out by Kwantung Army to emphasize Army's disapproval of Hirota's policy of friendship, and that any adverse comment thereon by Great Britain or America may lead to an aggravation of the situation. Unconfirmed newspaper reports to the effect that China had appealed under the Nine-Power Treaty to England and America provoked criticism by Kwantung Army representatives in Tientsin yesterday and knowledge that Great Britain and America have dared comment ad-

[87] Dated June 15, 4 p. m., p. 252.

versely upon activities of Kwantung Army will, in my opinion, only result in infuriating army leader[s] and probably in inciting them to further activities.

Repeated to Tokyo.

JOHNSON

761.93/1552

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

No. 3621 PEIPING, June 17, 1935.
[Received July 13.]

SIR: I have the honor to refer to the Department's instruction No. 1638 of April 22, 1935, regarding an agreement alleged to have been made in 1932 between the then Governor of Sinkiang, Chin Shu-jen, and the U. S. S. R., and to comment on the situation existing in that province.

As reported in Hankow's Political Report for September 1933 [89] (page 21), the alleged text of a treaty was about that time printed in the China press. The date of the treaty was variously given as October 1 and October 31, 1931. The text, as reported by the *Ta Kung Pao* (*L'Impartial*, Tientsin) of September 12, 1933, is enclosed in English translation.[89]

The treaty as printed seems to be primarily a trade agreement, and inquiry at the Soviet Embassy in Peiping elicited the opinion that such an agreement may actually have been signed between Governor Chin Shu-jen and a Soviet trade organization for the purpose of facilitating commerce between Sinkiang and the U. S. S. R. In view of the State character of the Soviet official trade agencies, the distinction would seem unimportant. In actual fact, Chin Shu-jen was tried in Nanking on the grounds of usurping authority and negotiating international agreements with foreign countries, and his recent conviction and sentence to prison would indicate that he had been guilty as charged.

The situation is somewhat different as regards the relationship between General Sheng Shih-ts'ai, Provincial Defence Commissioner, and the U. S. S. R. As reported in the Legation's despatch No. 3450 of March 22, 1935,[89] the incumbent Provincial Chairman, Li Yung, is but a figure-head, the Defence Commissioner being in actual dictatorial control of the administration of the province. Evidently, as has been outlined in the above-mentioned despatch, Sheng Shih-ts'ai was able to maintain himself in power after his initial seizure of power

[89] Not printed.

only by reason of assistance rendered by Soviet Russians (not necessarily by the Government of the U. S. S. R. directly) from December onwards.

It would be assumed, under the present circumstances, that Sheng Shih-ts'ai would perforce regard any previous trade agreements between Sinkiang and the U. S. S. R. as remaining in effect. Soviet advisers have evidently been engaged, and an agreement reached for a Soviet loan to Sinkiang. These measures would probably constitute the present means of implementing the close relationship that has been established between that border province and the U. S. S. R., disguised in that rather mild form to avoid possible repercussions in Great Britain. As yet, south Sinkiang apparently occupies a position independent from the regime established in Tihua.

A Chinese official stated in conversation that the Sinkiang Commissioner for Reconstruction, Kao Hsi-ping, who arrived in China at the beginning of the year presumably to make a report on current affairs in Sinkiang, in fact escaped from Tihua, with no intention to return, by convincing General Sheng Shih-ts'ai that his connections in the Nanking Government would enable him to negotiate a large loan there for the benefit of the Tihua regime. The same source affirms that Ma Chung-ying, who offered a serious threat to Sheng Shih-ts'ai in the troubled period previous to December 1933, is now actually in a foreign concession in Tientsin, planning with "influential circles" for a return to power in Sinkiang. Money and military support are said to be forthcoming for such a venture, and the implication seemed to be that the program was known to, and had the approval of, the Nanking Government. According to informed quarters in the British Legation, however, the evidence is that Ma Chung-ying is interned in the U. S. S. R. and it could not reasonably be expected that he would return from there to Sinkiang unless it were as an instrument of the Soviets. It may be remarked, incidentally, that it appears to be the belief at the Soviet Embassy in Peiping that Ma Chung-ying is still in the U. S. S. R.

M. Duboscq's analysis of the Sinkiang situation, as outlined in the article enclosed in the Department's instruction, would thus seem to approximate the truth of the matter. In general, Sinkiang now occupies, as it has for most of its history, a position with only very tenuous relations to China. The construction of the Turksib Railway and the economic development of neighboring regions of the U. S. S. R. have tended more than ever to bring about the orientation of Sinkiang toward that country instead of in the direction of China, to which it nominally maintains allegiance. This development of a closer relationship between Sinkiang and the U. S. S. R. has of recent

years been partly by the medium of trade relations between the U. S. S. R. and the Kirghiz tribes in west Sinkiang, and the extension of those trade relations has led to concrete changes in the political complexion of Sinkiang.

On one point of M. Duboscq's speculations regarding the future an objection would seem, from the Far-Eastern point of view, to be warranted. M. Duboscq appears to believe that the development of Soviet influence in Sinkiang indicates a Russian pressure southward that would eventually aggravate the historical conflict between the U. S. S. R. and Great Britain in that part of the world, and that Japan would view such a development with equanimity in return for Soviet "encouragement" of Japanese expansion in east Asia. It would appear to the Legation that the European situation has brought the U. S. S. R. and Great Britain to a better understanding than has at times prevailed between the two countries, and that this development has changed somewhat the character of Soviet-British relationships in central Asia. If this belief is correct, it is probable that Soviet policy in Sinkiang will be designed to avoid giving offense to the British in India and Tibet. That this may be so seems to be indicated in Soviet Russia's failure, thus far, to penetrate into south Sinkiang where the existence of Soviet influence would be certain to arouse British suspicions. It would appear more probable that the U. S. S. R., suspicious instead of complacent regarding Japanese plans in east Asia, would attempt to further the development in Sinkiang of a political organization that, having close relationships with and being friendly toward the U. S. S. R., would constitute a barrier against a flanking movement by Japan against the Soviet Union. In such a hypothetical political organization (which seems actually to exist in its beginnings under the leadership of Sheng Shih-ts'ai), political sovereignty would still reside technically with the Republic of China. In actual fact, the semi-independent character of China's last border province would be accentuated, especially should national or international problems faced by the Nanking Government be of such intensity as to engage all its energies, so that it would in many respects be closer to the U. S. S. R. than to China both as regards commerce and international policies. Presumably, however, Sinkiang would not proceed along the same road as that taken by Outer Mongolia, by reason of the consideration Moscow at present holds for British political susceptibilities.

As of possible further interest, there is enclosed a copy of a Tass news despatch of May 17, 1935,[90] regarding a conference reported to have taken place at Tihua on April 10 of this year. Sheng Shih-ts'ai,

[90] Not reprinted.

according to the report, outlined the Provincial Government's policy as being one of resisting "imperialist attacks" and maintaining China's sovereign control in the province. The despatch is perhaps most interesting for its tone, which is of exactly the same quality as that characterizing news reports regarding affairs in the U. S. S. R. itself.

It is being suggested to the Legation at Nanking that it may prove possible to obtain additional information there regarding the general subject of the relationship existing between Sinkiang and the U. S. S. R.

Respectfully yours, NELSON TRUSLER JOHNSON

793.94/7069 : Telegram

The Second Secretary of Legation in China (Atcheson) to the Secretary of State

NANKING, June 18, 1935—11 a. m.
[Received June 18—8 : 32 a. m.]

167. 1. The only definite decision so far reached by Chinese Government councils is to pursue a peaceful and conciliatory policy toward Japan. Chiang Kai-shek has not arrived.

2. Suma this morning privately informed a foreign news correspondent with whom he has very friendly relations that no startling developments are likely to occur in Hopei at the present time. He stated that the Japanese desire no written convention or agreement of any kind; they are now quietly observing whether the Chinese authorities are carrying out "suggestions" made by the Japanese military; and the problem for China now is to demonstrate "sincerity" and to determine what kind of new administration is to be set up in the North. He added that a basic change in the organization of the Kuomintang might be necessary and said that Ho Ying-chin was striving to persuade the Chinese Government to meet Japanese wishes in full but Chiang Kai-shek was pursuing a noncommittal policy which would be personally fatal if continued. Reports of the alienation of Kwangtung, he stated, were premature; some such development, however, was to be expected in the future.

3. Despatched to the Department and Legation.

ATCHESON

793.94/7068 : Telegram

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

TOKYO, June 18, 1935—1 p. m.
[Received June 18—7:20 a. m.]

132. Department's 93, June 15, 4 p. m.

1. The British Ambassador called on Minister for Foreign Affairs this morning and prefaced his inquiries by stating that just as Ambassador Matsudaira had recently asked Sir John Simon about the general situation in Europe he, Sir Robert Clive, would be glad to learn from Hirota the present situation as reported in North China.

2. Hirota in reply confirmed the statement made by the Chief of the East Asia Department to the Counselor of the British Embassy on June 15 (Embassy's 130, June 15, 8 p. m., paragraph 2) and stated categorically: (*a*) that no demand had been made on the Chinese authorities that officials of North China should be appointed only with the approval of the Japanese military; (*b*) that Japanese troops could not move south of the Wall without imperial sanction; and (*c*) that no alteration of Japan's policy in China is envisaged. The Minister went on to say that in replacing the Chinese officials to whom objection had been raised on account of their anti-Japanese attitude and activities it would of course be unfortunate if other officials with the same anti-Japanese proclivities should be appointed. Such action would doubtless result in further friction and would delay a satisfactory settlement of the situation. Otherwise the Minister felt optimistic that the situation would rapidly resolve itself in a satisfactory manner.

3. The British Ambassador then inquired as to the truth of the report that the Japanese military had demanded the dissolution of the Kuomintang in North China. The Minister categorically denied this rumor also but said that agents of the Kuomintang had been responsible for the assassination of the pro-Japanese editors in Tientsin and that it was difficult to distinguish the various branches of the Kuomintang from the "Blue Shirts" and other societies which were closely interrelated. It might take some time to eliminate the various anti-Japanese elements of which complaint had been made.

4. The Minister said that the Chahar situation was entirely separate and had no connection with the situation in North China. He understood that some of General Sung's troops had threatened "Manchukuo" territory and that the Japanese military had merely requested Sung to draw back. In this respect, however, the Minister spoke in rather vague terms.

5. The Ambassador did not mention or touch in any way upon the Nine-Power Treaty.

6. I am of the opinion that the action described in paragraph 3 of your 93, June 15, 4 p. m., has adequately and admirably covered the situation up to the present and that no additional action is at present called for. While we ought not abstain from action merely in order to avoid irritating the Japanese military if constructive results can thereby be obtained, it does not at present appear that any good purpose would be served by invoking the Nine-Power Treaty especially if we are to take the assurances of the Minister for Foreign Affairs to the British Ambassador at their face value. Clive is of the opinion that the Chinese Ambassador in London brought up the Nine-Power Treaty on his own initiative and not under instructions because no official indication has been received that a similar step was taken in the other capitals. I concur in the opinions expressed by Mr. Johnson in paragraph 2 of the Legation's 288, June 17, 8 p. m. to the Department.

Repeated Peiping.

GREW

793.94/7071 : Telegram

The Second Secretary of Legation in China (Atcheson) to the Secretary of State

NANKING, June 18, 1935—2 p. m.
[Received 2 : 15 p. m.]

168. I understand that Executive Yuan this morning approved appointment of Chin Teh-chun, member of Chahar Provincial Government, to be chairman thereof in place of Sung Cheh-yuan. Chin is said to be acceptable to Japanese.

ATCHESON

793.94/7072 : Telegram

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

PEIPING, June 18, 1935—3 p. m.
[Received June 18—2 p. m.[91]]

292. The attitude of the Kwantung Army with regard to Sung Cheh-yuan in Chahar is becoming more menacing. Japanese press reports from Hsinking claim that two new incidents have occurred, namely, that soldiers of Sung fired on June 11 and again on June 12 at "Manchukuo" officials "in Jehol Province". According to these reports, these incidents are regarded as a breaking of the Tatan truce reached February 2, 1935 between Chahar and Japanese military (Legation's telegram No. 64 of February 6, 4 p. m.[92]). Under the terms

[91] Telegram in two sections.
[92] *Ante*, p. 42.

of this truce, according to the Japanese version, it has been agreed that the Chinese Army should not invade territory of "Manchukuo" and that if it did the Kwantung Army would take any measures necessary the result of which would be the responsibility of the Chinese. A Reuter report of June 17 from Tokyo states that the staffs of the Kwantung Army at Hsinking have decided that Sung's troops will hereafter be treated as bandits while a Hsinking press report published here this morning states that the Kwantung Army wishes to have Sung's troops withdraw entirely from Chahar Province. Consul General at Mukden reports June 17, 5 p. m., that the *Manshu Nippo* published a telephone message from Hsinking reporting that a military conference had formulated instructions June 16 to be released to Doihara to deal "positively" with alleged impasse in negotiations over the Chahar incident of June 5. Furthermore, it is reliably reported the Japanese brigade at Shanhaikwan (referred to in Legation's 275, June 14, 4 p. m.) has returned to North of the Great Wall, destination unknown, but possibly Jehol.

Local Japanese assistant military attaché treats the Chahar situation less alarmingly in a statement today saying that if Sung shows "sincerity" matters will be satisfactorily arranged. From his remarks it would appear that the demilitarization of that part of Chahar contiguous to Jehol is intended.

In case of being pressed too hard it is regarded as a possibility that Sung might attempt to put up some sort of fight against the Japanese for there is no suitable place for his troops to go outside of Chahar especially because his former affiliations with Fang Yu-hsiang [93] now have put him on unfriendly terms with leaders of neighboring provinces (and with Chiang Kai-shek).

Reports of unusual developments elsewhere in North China are lacking. The Japanese Embassy states that Japanese troops in Peiping whose replacements recently arrived will leave for Japan June 19, and it is understood that similar troops in Tientsin were leaving this morning for Japan.

It may be that the Kwantung Army will now concentrate its efforts on obtaining its objectives with respect to Chahar, postponing at least for the present further activities in Hopei. This is perhaps indicated not only by the reported withdrawal of troops from Peiping and Tientsin but by a Japanese press report of June 17 from Tokyo which states, (1) that the Japanese military at Tokyo disclaim having connection with the question of the political administration of North China, wishing only to see the fulfillment of recent demands, and (2) that the Tokyo military have telegraphically ordered the Japanese military in North China "to control rumors which create doubt

[93] Former commander of Kuominchun (People's Army) in North China.

of the real intention of the Japanese military". Japanese press reports from Hsinking convey the same idea.

JOHNSON

793.9414/5 : Telegram

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

WASHINGTON, June 18, 1935—8 p. m.

171. A report has been obtained from an usually reliable source [94] that the Japanese Government is now negotiating at Nanking with the Chinese Government for the purchase of Pratas Reef, situated between Hong Kong and Northern Luzon. Please investigate discreetly and report by telegraph.

HULL

793.94/7075 : Telegram

The Second Secretary of Legation in China (Atcheson) to the Secretary of State

NANKING, June 19, 1935—10 a. m.
[Received June 19—8 : 08 a. m.]

169. 1. I learn from an authoritative and highly placed source that Sung Che Yuan was relieved because he expressed determination to defend his territory against the Japanese and that while his dismissal could not be avoided the government entertains grave fears that it may precipitate a declaration by Chen Chi Tang of the independence of Kwangtung and Kwangsi, ostensibly to set up an anti-Japanese Government in the southwest but with the secret support of the Japanese. At a meeting of government ministers yesterday fears were also expressed that if Chen revolted as an alleged anti-Japanese gesture the students and younger elements in Nanking might cause civil disorders. This fear I consider greatly exaggerated.

2. Chen recently telegraphed Wang Ching Wei pledging his support but according to an official of cabinet rank the government is apprehensive that Chen's hatred of Chiang Kai Shek is so great that he may not resist the present opportunity to attempt what he might believe would be a fatal blow at Chiang and the incumbent regime in Nanking. This official states that Hu Han Min left Canton following the murder of one of his henchmen because he foresaw a separatist move and wished to disassociate himself from it, and that since his departure Chen has been rapidly displacing Hu's adherents in official life. Fears of the alienation of Hunan are less grave, the present expecta-

---

[94] Report from the Naval Attaché in Japan, quoted in letter from the Secretary of the Navy to the Secretary of State, June 14, not printed.

tion being that, in case of an open break between Canton and Nanking, Hunan will not defy the National Government but will not render it assistance.

3. With the appointment yesterday of Wang Ke Min [95] as acting chairman of Peiping Political Affairs Readjustment Council it appears that the center of Sino-Japanese discussions concerning Hopei will again shift to Peiping.

Despatched to Legation and Department.

ATCHESON

793.94/7083 : Telegram

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

PEIPING, June 19, 1935—5 p. m.
[Received June 19—11 a. m.]

297. Assistant Military Attaché Takahashi states today that Chahar situation is not yet settled. Chin Teh-chun, Chahar Commissioner of Civil Affairs and reportedly appointed Provincial Chairman to replace Sung, is leaving Peiping for Kalgan today for further negotiation. According to Takahashi, Sung['s] 132nd Division stationed near Chahar-Jehol border and alleged to be to blame for recent incidents has been ordered to move to a point south of Kalgan. It is not yet known whether Sung will consent to accept such a new post as may be offered him by the National Government or whether the National Government will in fact provide a suitable post.

It is reported that the Executive Yuan appointed Wang Keh-min on June 18 acting chairman of the Peiping Political Readjustment Committee due to Huang Fu's continuing absence. Wang Keh-min who is also chief councilor of this Committee is understood to be satisfactory to the Japanese perhaps because he is friendly to the Anfu clique, having been Finance Minister in an Anfu cabinet for a few months in 1917–18. He is the third official to be appointed to an important post in North China since the recent trouble began. Shang Chen, Tientsin garrison commander and acting Mayor of Tientsin, has no such background. However, Chang Hou-wan appointed June 6 acting chairman of Hopei is a nephew of the present "Manchukuo" Finance Minister and a grandson of a former grand secretary[96] of the inner cabinet of the Ching dynasty. The appointments of Wang and Chang are believed possibly to indicate the trend of affairs in North China.

Repeated to Nanking.

JOHNSON

---

[95] Director of the finance division, Peiping Political Council, since 1933.
[96] Chang Chih-tung, who died in 1909.

793.94/7044 : Telegram

The Secretary of State to the Second Secretary of Legation in China (Atcheson), at Nanking

WASHINGTON, June 20, 1935—2 p. m.

51. Your 155, June 14, 11 a. m., paragraph 3.

1. Please orally inform the Political Vice Minister for Foreign Affairs that the Department of State is appreciative of the information supplied by the Ministry of Foreign Affairs in regard to recent events in North China as transmitted through the Chinese Minister in Washington on June 13 and through you on June 14; that the Department is gratified whenever the Foreign Office thus enables the American Legation to report authoritatively on developments likely to be of mutual interest; that on June 18 the Chinese Minister called at the Department and in response to inquiry was given orally a summary of information reaching the Department through other than Chinese sources in regard to events in North China; and that the Department understands that the Chinese Minister has cabled to the Foreign Minister the substance of the information thus communicated to him.

2. For your own information but not for communication to the Vice Minister, the substance of the information communicated orally to the Chinese Minister here on June 18 is as follows: The British Ambassador had called at the Department to bring to our attention the substance of the information which the Chinese Ambassador in London had communicated to the British Foreign Office, information which appeared to be substantially similar to that which the Chinese Minister had communicated to us. The British Foreign Office had instructed the British Embassy in Tokyo to make certain inquiries of the Japanese Foreign Office. It was our understanding that the Japanese Foreign Minister maintains (*a*) that no demand had been made, as reported, on the Chinese authorities that the Chinese officials in North China should be appointed only with the approval of the Japanese military; (*b*) that Japanese troops could not move south of the Wall without the approval of the Emperor; and (*c*) that no alteration of Japan's policy in China is envisaged. The Chinese Minister was informed also that we were not at that time contemplating taking any action; that the reports from the Far East were conflicting and changing from day to day; and that it was not clear what attitude the Chinese Government would take.

3. Repeat to Peiping as Dept's 177.

HULL

793.94/7088 : Telegram

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

PEIPING, June 20, 1935—5 p. m.
[Received June 20—1:50 p. m.]

301. Chahar situation continues to be obscure and to have serious potentialities. Sung Che-yuan arrived this morning at Peiping without previous announcement. He states that he will remain here for 2 or 3 days and then proceed to Tientsin. (Although his reason for going to Tientsin is not known, Sung has a house there in the British Concession where he will be safe from molestation and there is the possibility that he may lend himself to the activities of other Chinese in Tientsin who are resentful over past treatment by members of the National Government.) Takahashi states that Doihara will arrive at Peiping from Tientsin today; and also Matsui from Kalgan who has been handling negotiations. However, Chin Teh-chun who is negotiating on behalf of Chahar government left Peiping last night for Kalgan. An American correspondent who arrived this morning from Kalgan states that foreigners in Kalgan are uneasy over possible future activities of Sung's army.

The new Commissioner of Public Safety at Tientsin is Lieutenant General Liu Ssu-jung, a graduate of Tokyo Military Academy and a former chief of staff of Marshal Sun Chuan-fang. The new Secretary General of the Mayor of Tientsin is Liu Sui-chang, graduate of Meiji University and a protégé of Ho Ying-chin.

Repeated to Nanking.

JOHNSON

793.94/7093 : Telegram

The Second Secretary of Legation in China (Atcheson) to the Secretary of State

NANKING, June 21, 1935—9 a. m.
[Received 10 a. m.]

174. My 155, June 14, 11 a. m.

1. In a lengthy informal conversation last evening Hsu Mo remarked that he had read news despatches concerning the projected investigation of the Senate Foreign Relations Committee into the question whether the Japanese military *démarche* in North China constituted violation of the Kellogg Pact and the Nine Power Treaty. Hsu said, laughing, that this was "really very funny" since every one knew that Japan was now violating both those agreements and had violated them in many instances since the seizure of Mukden in 1931, the creation of the demilitarized zone inside the Wall being an example. He

stated later on that he realized no nation in the world at the present time was willing to put forth a maximum effort to prevent Japan from gaining control of China but he was confident that conditions would be greatly altered if two major powers interested in China should cooperate in taking steps to alleviate the situation. He added that China was not, however, asking any nation for assistance.

2. Other remarks tended to confirm my understanding of the situation in North China as I have been reporting it. He stated by way of general summary that China is now passing through some of the darkest hours of its history; that the Chinese Government has employed the greatest toleration in attempting to solve the difficulties which the Japanese military have caused; that for the time being North China is comparatively quiet but the Chinese do not know from one day to the next what move undisciplined Japanese officers might make; and that irrespective of the fact that the Japanese had not formally occupied Hopei they had in effect seized Chinese territory with their armies and were exercising control over Chinese territory.

3. He said that the Southwestern situation looked more hopeful; he did not think Chen Chi Tang would actually break with Nanking at this time because public opinion would be too much against him and because Kwangtung finances are at present inadequate for an independent government there to be successful.

4. Despatched to the Legation and Department.

ATCHESON

793.94/7096 : Telegram

The Second Secretary of Legation in China (Atcheson) to the Secretary of State

NANKING, June 21, 1935—noon.
[Received June 21—10:45 a. m.]

175. 1. It is reported but not confirmed that the Kwangtung air force has sent a number of planes to the Hunan border to be prepared for eventualities. It is reliably reported that Pai Chung Hsi has sent an emissary to Chiang Kai Shek at Chengtu and this is taken as a hopeful sign.

2. Irrespective of any outside influence toward an open break with Nanking, there are said to be concrete causes of dissatisfaction in Kwangtung and Kwangsi arising from measures taken by the National Government to consolidate its position in nearby provinces. The establishment of government authority in Kiangsi following the departure of the Communists, the more recent reorganization of the Kweichow Provincial Government and the achievement in May of an apparently good understanding between the Yunnan Chairman

and Chiang Kai Shek have tended to isolate the two Kwangs strategically and are understood to have had an adverse economic effect upon them. It is reported that shipment of opium from Szechwan and Yunnan which formerly passed through and paid revenues in Kwangsi and Kwangtung have been diverted and that the former general trade with Kiangsi has likewise been lost. Furthermore, the National Government has had plans, which have not been effectuated presumably because of Ho Chien's ambiguous position, of stationing a considerable body of Chiang's troops in Hunan and of constructing a series of air fields from Changsha in the direction of the Kwangtung border. These considerations are said to have caused Chen Chi Tang and Pai to feel that Chiang was working slowly but effectively for their ultimate elimination and they took advantage of the difficulties in North China to undertake some maneuver which has caused the grave disquiet in Nanking mentioned in previous telegrams.

ATCHESON

793.94/7094 : Telegram

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

PEIPING, June 21, 1935—5 p. m.
[Received June 21—9 : 50 a. m.[97]]

305. The recent lull in developments in Sino-Japanese relations in North China continues. Reasons for the lull may be one or more of several: (1) Representations from Tokyo to the Kwantung Army and Tientsin garrison with regard to the apprehension aroused in foreign countries through widespread publicity; (2) some hitch in the military's plan such as the failure of the rebellion in the Southwest to materialize at the time of the recent Japanese *démarche* in Hopei; (3) intention to settle the Chahar situation to Japanese advantage before pushing their plans in other northern provinces; or (4) awaiting developments at Nanking. Whatever the reasons, however, it is not believed that the military have abandoned their objectives although their activities may have been slowed down, deferred, or deflected. At present it would seem that the Japanese expect to see in Hopei (and North China) a regime of officials who, appointed by the National Government, will be more amenable to the dictation of the Japanese military than previous officials and who will pave the way for another step in the direction of rendering it impossible for China to become a menace to Japan.

Doihara arrived at Peiping today. There is reason to believe that his primary purpose is to allay apprehension with regard to future

[97] Telegram in two sections.

developments in Hopei and to assist in the settlement of the Chahar situation.

Doihara informed Japanese press representatives after his arrival that if the attitude and guiding principles of the National Government are improved then no more incidents will occur. However, Matsui is reported to have stated yesterday that "the removal from office of Chinese leaders whose opposition to the Japanese was well established and the transfer of troops from one part of the country to another was not a lasting solution of the problem".

General Sung left Peiping yesterday for Tientsin. Japanese military officers insist that the Chahar question and the North China situation are separate matters. A Rengo report from Hsinking of June 20 states that Sung's 4,500 men in Chahar are showing indications of a mutiny and that "Japanese troops garrisoning Jehol Province are closely watching the attitude of General Sung's troops in order to take action in case they invade 'Manchukuo' territory". Takahashi has said that Sung's departure from Chahar does not affect settlement of the situation because his troops are still there.

An indication of what appears to be Japanese efforts to allay apprehension is the report that the two Japanese destroyers at Tientsin will sail on June 22 for Port Arthur.

JOHNSON

793.9414/7 : Telegram

The Second Secretary of Legation in China (Atcheson) to the Secretary of State

NANKING, June 22, 1935—10 a. m.
[Received June 22—3 : 25 a. m.]

177. Department's 171, June 18, 8 p. m. I have so far been unable to discover any foundation for the report. During a conversation recounted in my 174, June 21, 9 a. m., Hsu Mo mentioned that at no time during the Sino-Japanese discussions begun in January or since, or during those in connection with North China, had Japanese officials put forth any suggestion looking to the transfer to Japan of territory for naval bases or other purposes and I have heard similar comment by the Acting Minister of the Interior and others, including the head of the Political Affairs department of Chiang's field headquarters who has been in Nanking during the crisis and who was Acting Minister of the Interior prior to March. I am continuing to investigate.

Despatched to the Department and Peiping.

ATCHESON

793.94/7107 : Telegram

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

WASHINGTON, June 22, 1935—3 p. m.

95. Ambassador Bullitt reports [98] that on June 19 Litvinov stated to him in the course of an extended conversation that he (Litvinov) was greatly disturbed by the actions of the Japanese military in North China, and that, according to information from Soviet sources in Tokyo, such actions were very unpopular in Japan. Litvinov expressed the opinion that some action on the part of Great Britain or the United States in relation to recent developments in North China would cause Japanese popular opinion to become actually hostile to the Japanese army.

HULL

793.94/7180

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

No. 3643 PEIPING, June 22, 1935.
[Received July 13.]

SIR: I have the honor to enclose a copy of a memorandum of a conversation [99] which I had on June 18, 1935, with Mr. Edward Lepin, Military Attaché of the Soviet Embassy, during which he expressed the opinion that the five northern provinces would be divested before the end of the year of any authority of Nanking; that the Japanese had missed their opportunity in 1932 with regard to Russia; and that, if Russia were forced to fight, she would fight on foreign soil. I gathered the impression from his statements that it was his opinion that, if territory lost by China to the Japanese fell to Russia as a result of a Russo-Japanese war, it could not be argued that Soviet Russia was therefore either politically ambitious or acquisitive.

Respectfully yours, NELSON TRUSLER JOHNSON

793.94/7105 : Telegram

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

PEIPING, June 23, 1935—3 p. m.
[Received June 23—7:27 a. m.]

307. Japanese newspaper at Tientsin published June 22 a telegram from Nanking dated June 21, containing alleged statement by Wang Ching-wei to Japanese newspapermen. This statement has not appeared in local Chinese or English language press. According to this

[98] Telegram No. 244, June 19, not printed.
[99] Not printed.

report, Wang stated that China's great compromise over the Manchurian and Hopei questions will bring harmonious results; that although China is militarily weak and could have no hope of winning a Sino-Japanese war, Chinese in such an event could long resist, Japan would be exhausted, and neither country would profit; that good policy can bring about friendship and cooperation; that the uniting of China's raw materials and Japan's technique is the foundation of Far Eastern economy; that a spirit of harmony and friendship is an objective which will not be altered; that the Hopei situation does not affect Sino-Japanese diplomatic relations although recurrence of such a situation must be carefully avoided; and that Chiang Kai-shek's allegedly doubtful attitude toward Japan was not the cause of the Hopei affair, as Chiang's attitude has been the same as his own. Wang also stated that all Japanese loans to the Minister of Communications and a part of those to the Minister of Railways have already been adjusted and that furthermore, other old loans are in the process of being adjusted. With regard to the question of Sino-Japanese air lines, Wang said that at a Chinese conference in February of this year, it had been decided that, until the facilities for China's internal air lines were perfected, negotiations with regard to international air lines should be given up.

If this report is accurate this interview would seem to be intended to meet the surface change evident during the past few days in the attitude of the Japanese military as suggested in the Legation's telegram No. 305, June 21, 5 p. m.

By mail to Nanking and Tokyo.

JOHNSON

793.94/7108 : Telegram

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

TOKYO, June 24, 1935—2 p. m.
[Received June 24—8 : 35 a. m.]

138. Department's 95, June 22, 3 p. m.

1. The Embassy is not in accord with Litvinov's statement as to the unpopularity in Japan of the Japanese military activities in North China. The Japanese public appears to regard them as a routine matter aiming at the gradual expansion of the area of order and for the protection of legitimate Japanese interests. It is true that there has been no great popular enthusiasm over recent developments in North China as there was over the Manchurian incident but the Embassy has received no indication from its numerous sources of information that any considerable section of the nation is actively opposed to the Army's moves. The vernacular newspapers recently have been giving only lukewarm support to the military and there is some indi-

cation that the Japanese people are a little tired and perhaps somewhat apprehensive of the cost of the Army's demands and aggressiveness at home and abroad but the Embassy is not prepared to go further than this in support of Litvinov's information.

2. An important element in the situation is the opposition in certain quarters in Japan to a united China or one under the control of Chiang Kai-shek whom the Japanese Army apparently distrusts. It may be that this accounts for some of the Army's demands in North China. It seems unlikely, however, that the Army's activities aiming at the disunification of China will be pushed much further just now and therefore, in the Embassy's opinion, interposition by the United States or Great Britain at the present juncture would be most inadvisable as it would almost certainly tend to solidify sentiment in favor of the Army's actions rather than against them.

Repeated to Peiping by mail.

GREW

793.94/7111 : Telegram

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

PEIPING, June 24, 1935—4 p. m.
[Received June 24—2 : 35 p. m.]

309. Negotiations over the Chahar situation began here last night between Chin Teh-chun together with Cheng Keh, former student in Japan friendly to the Anfu clique, and Doihara and Matsui. Chin telegraphed to Nanking yesterday requesting that he be relieved from the post of acting chairman of Chahar.

American news correspondent who returned from Kalgan yesterday states that opinion in Kalgan is that all of Sung Che-yuan's troops will be moved from Chahar when a suitable place is found that these troops being well disciplined will not cause trouble but that some 7,000 irregulars are regarded with apprehension. He states that the Japanese have built an airfield at Kalgan and are behaving toward Chinese officials with effrontery.

Wang Keh-min arrived at Peiping afternoon June 23 to assume the position of acting chairman of the Peiping Political Affairs Readjustment Committee and met Doihara this morning. According to Chinese newspapermen the National Government has placed a ban on publication of a report that Han Fu-chu submitted his resignation June 22. As it is understood that Han is uncertain about what the Japanese want of him and uncertain with regard to his standing with the National Government submission of resignation might be the result either of Japanese pressure or of his desire for the National Government to clarify its attitude towards him.

JOHNSON

693.11241 Manchuria/6

The Consul General at Mukden (Ballantine) to the Minister in China (Johnson)[1]

No. 123 MUKDEN, June 24, 1935.

SIR: I have the honor to refer to the Legation's telegram of June 12, 2 p. m., 1935, in regard to the payment of duty upon official supplies for this office, and to inform the Legation that I discussed the matter on June 18 with Mr. Ohashi, the Vice Minister for Foreign Affairs.

He told me that the British Consul General had made a protest on the day previous in regard to the imposition of duty on official supplies for his office and he had said in reply that the action had been taken by the Finance Department and that the Foreign Office had had no basis on which to take exception to its decision, since consuls of non-recognizing powers had no status in "Manchukuo". He said he did not understand on what grounds the British Consul General could complain, especially as on the whole he thought that the foreign consuls were treated considerately by the "Manchukuo" Government. He had also told the British Consul General that he intended to study this question more fully after which he would be in a better position to discuss it. Mr. Ohashi said that he could only give me the same answer as he had given the British Consul General.

I said that I wished to make it clear that I had not been instructed to make any protest, but I wished to discuss the matter in an endeavor to learn his attitude. Now that he had explained that it was the Finance Department and not the Foreign Office which had taken the action, and since he promised to give the subject study, I suggested that he would perhaps prefer postponing further discussion until my next visit to Hsinking. I added that while it was not within my province to advise him on policy I could not help feeling that such action accomplished nothing except cause needless irritation. I pointed out that for my part I was trying my best to establish friendly personal relations as widely as possible, and that I appreciated the sincere desire which I had generally encountered to reciprocate my attitude, which convinced me that there was a mutual advantage in such relations.

Mr. Ohashi said that he appreciated my friendly attitude, that he would carefully study the question in the light of what I had said, that he would be pleased to discuss this question more fully with me on the occasion of my next visit, and that he hoped I would feel free to talk over any matters with him fully and frankly.

---

[1] Copy transmitted to the Department by the Consul General in his unnumbered despatch of June 25; received July 22.

I feel that no useful purpose would be served by discussing the subject with any one in the Department of Finance, but I shall not fail to report to the Legation the outcome of my next discussion on the subject with Mr. Ohashi.

In reference to the possibility suggested by Consul Grummon in his despatch to the Embassy of June 21[2] that the present policy of collecting duty on official supplies of foreign governments may be extended to the extent that such shipments may be refused entry into Manchuria even after payment of duty, I am inclined to believe that the statement attributed by the forwarding agent to an official of the Customs does not represent the views of his superiors, and while it might not be possible to obtain a reversal of policy on the matter of duty I feel satisfied that any difficulties which may arise at Dairen over the clearing of official supplies can be straightened out with Mr. Ohashi at Hsinking.

I may add that the supplies were received by me yesterday, and I understand from Consul Grummon that duty amounting to Yen 20.00 was paid by the forwarding agent and a receipt from the Customs sent to me.

Respectfully yours, JOSEPH W. BALLANTINE

793.94/7116 : Telegram

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

PEIPING, June 26, 1935—2 p. m.
[Received June 26—9 : 15 a. m.]

315. The Executive Yuan appointed on June 25 General Shang Chen to be chairman of the Hopei Provincial Administration concurrently with his position as Commander of Peace Preservation Corps at Tientsin and Tangku and Cheng Keh (Legation's 309, June 24, 4 p. m.) as Mayor of Tientsin.

According to the official source mentioned in the first paragraph of my telegram No. 283, June 16, 7 p. m., these two appointments were made by the National Government without consultation with Japanese and without Japanese approval. He was most emphatic in this statement indicating that the alleged Japanese requirement that officials in this area be appointed only with Japanese approval has not yet been complied with. However, it is thought that appointments made so far in this area have been confined to persons who the National Government believes will be acceptable to the Japanese. Although Shang Chen is not believed to have had important relations with the Japanese in the past and is generally regarded as unques-

[2] Not printed.

tionably loyal he will be stationed according to this source in Paoting and will not therefore play so important a role in Sino-Japanese affairs in this province as will Wang Keh-min. Chang Hou-wan, recent Acting Chairman of Hopei, will continue as Provincial Commissioner of Civil Affairs (Legation's 297, June 19, 5 p. m.).

The situation continues to be quiet here and the Chahar negotiations continue to be obscure. It has so far been impossible to learn how much of Chahar Province is to be demilitarized.

Present indications are that the Japanese military intend to avoid the use of military force for attaining their further objectives (although the threat still exists) and to employ "diplomacy" thereby staying within the bounds of directions from Tokyo and making it difficult for foreign governments to allege that the Japanese military are aggressors. It is understood that conversations looking toward inexorable "cooperation" have begun between Wang Keh-min and Doihara.

By mail to Tokyo and Nanking.

JOHNSON

793.94/7115 : Telegram

The Second Secretary of Legation in China (Atcheson) to the Secretary of State

NANKING, June 26, 1935—2 p. m.
[Received June 26—10 a. m.]

183. Suma of Japanese Embassy indicated to Counselor Lockhart and me in conversation this morning that he considered Sino-Japanese issues in Hopei completely settled and said that there was now no question of an exchange of memoranda between Japanese and Chinese or the signing of any kind of document by them and Chinese in that connection. He stated that the Chahar question would be taken up in Nanking within a few days, the details having been worked out in the North and the Chinese Government having already agreed in principle to the points suggested by the Japanese.

ATCHESON

793.94/7117 : Telegram

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

TOKYO, June 26, 1935—5 p. m.
[Received June 26—9:30 a. m.]

141. 1. I am reliably informed that negotiations for a settlement of the Chahar incident have now been successfully concluded and that an oral agreement has been reached between General Doihara

and General Chin Teh-chun. This agreement will probably be signed either today or tomorrow.

2. The agreement consists of the following demands all of which were accepted by the Chinese:

(*a*) Resignation of General Sung as Provincial Chairman.
(*b*) Removal of the 132nd Division from Chahar.
(*c*) Dismissal of Chief of Staff of 132nd Division and the head of the military police.
(*d*) An official apology to be made.
(*e*) All anti-Japanese activities to be suppressed.
(*f*) Chinese troops along the line Dolonor–Kuyuan–Tushikou–Huailai and at Yenching to be permanently removed elsewhere.
(*g*) All anti-Japanese organizations to be disbanded.
(*h*) Protection for all Japanese travelers to Inner Mongolia.
(*i*) Kuomintang headquarters to be disbanded.

3. An incident reported in the press this morning involving an attack by some 500 soldiers of Sung's army upon about 40 "Manchukuo" frontier guards near Tushikou has not yet been reported to the War Office here by the Kwantung Army but my informant believes that in any event this incident will in no way affect the agreement already reached and will be attended to locally by the Kwantung Army. He further stated that for the most part Sung's troops were well trained and disciplined and that only this detachment stationed near Tushikou was causing trouble.

4. See paragraph 4 of my 132, June 18, 1 p. m.

Repeated to Peiping.

GREW

793.94/7091

The Secretary of State to the Chairman of the Senate Committee on Foreign Relations (Pittman)

WASHINGTON, June 26, 1935.

MY DEAR SENATOR PITTMAN: I acknowledge the receipt of your letter of June 20, 1935,[3] referring for my consideration, recommendation and advice Senate Resolution 154,[4] a copy of which was enclosed with your letter under acknowledgment, authorizing an examination by the Committee on Foreign Relations into the policy pursued by Japan in Manchuria and China proper.

On January 31, 1935, in response to an invitation from your Committee, to which there had been referred Senate Resolution 32, authorizing an examination "into the policy pursued by Japan in Manchuria with a view to determining whether such policy has violated

---

[3] Not printed.
[4] Introduced by Senator King, June 17 (legislative day of Mar. 13), *Congressional Record*, 74th Cong., 1st sess., vol. 79, pt. 9, p. 9415.

any of the provisions of the Kellogg Peace Pact or the Nine Power Treaty", I addressed to you a letter[5] in which the attention of your Committee was drawn to Senate Document No. 55 of the Seventy-Second Congress, entitled "Conditions in Manchuria", the published reports of the proceedings and findings of the League of Nations in regard to the controversy between China and Japan and to other relevant published documents and papers. It is believed that the various publications under reference contain sufficient material of fact and of opinion to indicate clearly the position taken by the United States and by virtually all other nations not party to the controversy in regard to the question whether actions in China of Japan on and after September 18, 1931, are consistent with the provisions of the Nine Power Treaty and the Kellogg Peace Pact outlined in the first and second paragraphs of the preamble of Senate Resolution 154.

Subsequent to the date of my letter above mentioned, there occurred in Manchuria developments held by the American Government and certain other governments to be irreconcilable with the obligation assumed by nations party to the Nine Power Treaty to refrain *inter alia* from seeking, or supporting their nationals in seeking, any arrangement which "is calculated to frustrate the practical application of the principle of equal opportunity". The American Government, along with other interested governments, has affirmed to the Japanese Government that the establishment in Manchuria of an oil monopoly,[6] or in fact of any monopoly, would contravene the provision above outlined of the Nine Power Treaty, as well as provisions of other relevant treaties. In view of the declarations made by the American Government and other interested governments to the Japanese Government in regard to the establishment of an oil monopoly, it is believed that no useful purpose would be served by an examination of the circumstances, as set forth in the third paragraph of the preamble of Senate Resolution 154, in regard to the establishment of such oil monopoly.

With reference to the allegations in regard to the present situation in North China referred to in the fourth paragraph of the preamble of Senate Resolution 154, it may be stated that the American Government has received information from the Chinese Government and from the Japanese Government, and it is in communication in regard to that situation with other interested governments. In view of the fact that the present situation is momentarily undergoing change, it is the considered view of this Department that an investigation at this time by the Senate of recent developments in North China would not

[5] *Ante*, p. 34.
[6] See pp. 877 ff.

be in the public interest of the United States. In relation to that situation, it should be borne in mind that the United States has on previous occasions made declarations to the Chinese and the Japanese Governments in support of the principles embodied in treaties to which this Government is party. These declarations remain in effect. The Department is attentively following the situation with a view to determining whether there is need for further action by this Government toward safeguarding the rights and interests in China of the United States and of its citizens and toward carrying out the treaty obligations of this Government.

I desire to reaffirm the opinion contained in paragraph III of my letter of January 31, 1935, to the effect that the question set forth in the resolution under reference does not concern exclusively the United States, but that it is also of concern to all nations having treaty rights and obligations in and with regard to China.

I assume that the Committee does not wish to make public this letter or any portion thereof. However, should the Committee desire to make this correspondence available to the public, I request that, prior to such action, I be given an opportunity to express my views in regard to such proposal.

Sincerely yours, CORDELL HULL

793.94/7121 : Telegram

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

PEIPING, June 27, 1935—4 p. m.
[Received June 27—7 : 15 a. m.]

321. Doihara announced at 1 p. m. today that the Chahar incident was settled fully and completely shortly before noon today when Chin Teh-chun called on him and that Chin expressed regrets for its occurrence, stated that officials responsible for the incident had been dismissed and promised to strive for amiable relations. Takahashi also stated that Chin had given him a signed letter which is supposed to contain Chinese acceptance of the Japanese demands especially as Doihara is understood to have threatened later on June 25 that he would return to Hsinking unless the Chinese did what he wanted them to do. The terms of the settlement have not been made public but it is presumed that they are in general those contained in paragraph 2 of Tokyo's telegram No. 141, June 26, 5 p. m. with perhaps two further items, namely, (1) promise that no more Chinese shall migrate to Chahar Province for settlement and (2) a time limit of 2 weeks for fulfilling the Japanese demands.

Doihara also stated that the incident created by the alleged attack by Chahar soldiers on a "Manchukuo" force (paragraph 3 of above-mentioned telegram) has been settled. The details are not yet known.

Repeated to Tokyo and Nanking.

JOHNSON

761.9315 Manchuria/7

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

No. 1375 TOKYO, June 27, 1935.
[Received July 13.]

SIR: I have the honor to report that on his return from an inspection tour of "Manchukuo" the War Minister, General Hayashi, revived interest in the question of the Soviet-"Manchukuo" frontier. According to the press, in various interviews he stated that although there is no serious situation on the frontier at present, nevertheless Soviet planes continued to fly over the border area; he emphasized that the Kwantung Army now had two duties in "Manchukuo", policing and national defense; he remarked that attention must be given to the continued military preparations being made by the Soviets along the frontier; and he linked these matters with the budget requirements of the army. At Shimonoseki he was quoted as follows by all the leading vernacular papers of Tokyo:

"Across the Manchukuo frontier the Soviet Union has concentrated a great army of 240,000 men and is erecting very strong defense works. The Japanese force to withstand them, on the other hand, is very small. The defensive lines of the Soviets can be seen from the foremost lines of the Japanese guards. Though there is nothing to cause a war between the two countries, the situation must receive close attention."

At the same time that the several interviews with the War Minister were appearing in the press there were several reports current that the Foreign Office was on the point of opening negotiations for the conclusion of a non-aggression pact and the appointment of a joint frontier commission. These reports are as yet unsubstantiated and in regard to them Mr. Hirota is said to have confined his remarks to the statement that for Russia to maintain such large forces on the frontier is both needless and harmful. Nevertheless the reports provided the army with an opportunity to disseminate its view that the proponents of a non-aggression pact were mistaken if they believed that the negotiation of such a pact would facilitate the reduction of national military expenditures. The military authorities are said to have stated that such a pact would provide no assurance of security.

In their opinion it would be a dangerous substitute for military power; moreover, although the Soviet Union has concluded numerous non-aggression pacts in Europe, an increase rather than a reduction of armaments has followed.

Although there has been talk of a non-aggression pact between the USSR and Japan for some years, it is believed that the present is the first time that the issue has been publicly linked with the reduction of military expenditure in Japan. The Finance Minister, Mr. Takahashi, has apparently taken a direct interest in the matter. On June 19, 1935, Mr. Takahashi had an interview with the Soviet Ambassador although it is not known what transpired during their talk. Afterwards in a statement to the press he reiterated the thesis so often pronounced by the Foreign Minister that a solution of all pending problems should precede the negotiation of a non-aggression pact but he also stated that a settlement of the various economic issues between the two countries would facilitate a political settlement. He is further reported to have stated at a meeting of the Cabinet Inquiry Council that a non-aggression pact would be helpful in eliminating unrest along the border and that it would contribute toward readjustment of the national finances by reducing military requirements in "Manchukuo".

The latest steps in the present, rather cautious, public exchange of views on the subject were first a denial by the Foreign Office that negotiations are in progress for the conclusion of a pact with the Soviets, although the hope was expressed that a situation favorable to such negotiations would develop, and second endorsement by an army spokesman of Mr. Takahashi's opinion that pending issues must be solved first. Finally, when the Soviet Ambassador called on the Foreign Minister on June 26 to protest once more the shooting of a Russian cavalryman* on June 3, 1935, the Foreign Minister, according to report, made use of the occasion to propose the creation of a joint Japanese-Russian-"Manchukuoan" border commission. He is also said to have pointed out the beneficial effect in Japan which would result from a reduction of the Soviet troops in the Far East.

With this question concerning Soviet-Japanese relations being rather prominently aired in the vernacular press it might be expected that public interest would be aroused. This, however, does not appear to be the case. The public as a whole seems to have recognized in the controversy the usual preliminary skirmishings preceding the annual struggle for appropriations. Nor have the writers of editorials discussed the non-aggression pact issue. Only one paper, the *Kokumin*, has commented and expressed itself as follows:

---

* Embassy's Despatch # 1347, June 13, 1935. [Footnote in the original; despatch not printed.]

"Now the people are profoundly distrustful of the Soviet Union which is amassing troops in the Manchukuo border districts. It is out of the question with the majority of us to conclude a pact with such a country".

Whether the *Kokumin* has correctly interpreted the sentiment of the country as a whole or not is questionable; the policies of the Foreign Minister, which are directed towards the same general aims as are those of the army, have, as in the case of the Chinese Eastern Railway, the advantage of economy. However, the matter of a non-aggression pact is not now a live issue. There is at present no threat of imminent war with the Soviet Union; neither the Japanese military nor the Soviets, it is believed, are prepared for or wish a war. The attitude of the army is very likely largely motivated by financial considerations; apparently its primary interest in Soviet-Japanese issues at the moment is to use them to manipulate the situation within Japan to its own advantage.† For the time being at least, larger considerations, such as the deep-rooted determination of the army to be free of treaty commitments with the Soviets, are not to the fore.

Respectfully yours, JOSEPH C. GREW

793.9414/8 : Telegram

The Second Secretary of Legation in China (Atcheson) to the Secretary of State

NANKING, June 28, 1935—10 a. m.
[Received June 28—4:58 a. m.]

185. My 177, June 22, 10 a. m. Ministers of Industries and Navy confirm remarks of officials previously mentioned. Both state Pratas Reef is of no real value and could not be used for naval or aviation station. According to the latter the sea frequently washes over it and while the Chinese Navy maintains a weather report broadcasting station there a former lighthouse has been abandoned.

To the Department and Legation.

ATCHESON

793.94/7128 : Telegram

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

TOKYO, June 29, 1935—11 a. m.
[Received June 29—1:57 a. m.]

143. From completely reliable source I have received direct word from the Prime Minister that he believes himself fully in control of the situation in China; that he is determined that there shall be no major

† Embassy's Despatch #1331, May 31, 1935. [Footnote in the original; despatch printed on p. 193.]

military operations and that the differences shall be settled through peaceful measures.

My informant stated that the Prime Minister, in the judgment of the thinking men of the empire, is in a stronger position than any Premier in recent years, citing as evidence of Okada's adroitness and ability the fact that he is the only man who supported the moderates in the dispute over the London Naval Conference who is now in high active office; the others have been eliminated or sidetracked. Okada believes that there will probably be border incidents engineered by overzealous younger officers, but they will not develop into larger issues if he can prevent it. In this policy he is stated to have the support of the court, which is a great moral asset, the more so because it is an influence that requires extreme discretion in practical use.

Repeated to Peiping.

GREW

793.94/7132 : Telegram

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

PEIPING, June 29, 1935—noon.
[Received 5 : 35 p. m.]

324. The following two telegrams have been received from Harbin:

"June 28, 10 a. m. Unconfirmed reports believed to be true state that a surveying party of the Kwantung Army was on June 24 attacked and two members kidnapped by Outer Mongolian troops who allegedly crossed the boundary 80 kilometers southeast of Gandjur. The Army regards it seriously and has proposed to settle the matter at the present Manchuli conference if the Mongolian delegates can receive appropriate instructions from their Government."

"June 29, 2 p. m. Referring to my despatch No. 86, of June 14, a Japanese official has confirmed a report stating that the 'Manchukuo' delegates have received instructions to accept the limited agenda desired by the Mongols and that consequently general questions will not be taken up at least for the present. A possible break-up of the conference has thus apparently been averted."

The local Japanese Embassy states that it has no new information with regard to these matters.

JOHNSON

793.94/7129 : Telegram

The Second Secretary of Legation in China (Atcheson) to the Secretary of State

NANKING, June 29, 1935—noon.
[Received June 29—6 : 38 a. m.]

187. Suma of the Japanese Embassy states that among his activities in the back wash of the situation in Hopei and Chahar he has obtained assurances from the Chinese Minister of Finance that action on the

proposed imposition of a 10% surtax on imports will be postponed indefinitely, that the new pilotage regulations will not be put into effect for 3 months and that no action will be taken toward creating a sugar monopoly. Suma stated that upon expiration of 3 months a further postponement in respect to the pilotage regulation would be arranged, the period having been named as a face saving device. He said also that the Japanese had "permitted" the Chinese Government to promulgate and publish the new export tariff (published in the press June 26) without protest and if necessary later he would take up any questions that might arise concerning inserted items. He added that all questions relating to Chahar were now completely settled.

ATCHESON

793.94/7131 : Telegram

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

PEIPING, June 29, 1935—2 p. m.
[Received 7 : 15 p. m.]

325. I refer to United Press report from Tokyo claiming that trouble south of Peiping yesterday and the preceding night (my 322, June 28 noon [7]) was due to mutiny of Wan Fu-lin's troops and that there was rioting within Peiping. Official sources all claim that the trouble was instigated by plain-clothes men, alleged to have come from Tientsin to Fengtai during the last few days. Peiping remained quiet throughout the entire time.

Indications are that the plain-clothes men intended to organize an anti-Chiang Kai-shek government and anticipated assistance from within Peiping. However, officials here having received intimations some 3 days prior to the outbreak of trouble, state that precautions were taken to prevent disturbances within city. A plain-clothes man arrested yesterday afternoon admitted according to Chinese authorities that there were 300 plain-clothes men within Peiping. It would seem that the instigators had had connection with certain Japanese and had been misled into believing that they would receive support. Support failing to materialize the movement proved to be abortive. As a result of the confession of the men arrested yesterday afternoon local authorities have decided to place Peiping under martial law every night from 9 p. m. to 6 a. m. for an indefinite period during which time persons on the streets must have passes.

I am officially informed that the persons who caused the trouble at Fengtai and on the armored train were completely suppressed last evening and also that some 20 to 30 plain-clothes men who appeared near Tungchow (15 miles east of Peiping) were suppressed yesterday.

[7] Not printed.

In view of the fact that the instigators failed this time and that the local authorities have taken precautions, nervousness in Peiping has fell [*sic*] off. The 41st Division of Sung Che-Yuan's army arrived last night at Peiping from Chahar and is to be stationed in and near Peiping. It is one of Sung's best divisions and officials say that it has come because of the lack of troops in the Peiping area and because of some suspicion of the loyalty and intentions of Wan Fu Lin's troops and even of Wan himself.

Repeated to Tokyo and Nanking.

JOHNSON

793.94/7160

Memorandum by the Under Secretary of State (Phillips)

[WASHINGTON,] July 1, 1935.

During the British Ambassador's call upon me yesterday, I referred to the exchange of views which he and I had had with respect to the situation in North China. I reminded him that he had brought a message from the Foreign Office inviting this Government to take certain steps in Tokyo along the lines of the British action; that Ambassador Clive had apparently not carried out fully his instructions from the British Government with respect to Japanese intentions in North China; at the same time the Japanese Ambassador in Washington had given the Secretary of State certain assurances, which I reminded the Ambassador I had already read to him. I said I assumed that, since we had heard nothing more from him (the Ambassador), his Government had decided to let matters rest without taking any further action in Tokyo. I said that, in view of the assurances which we had received and the attitude of the Chinese Government itself, we had come to the same conclusion. I said I had noticed a recent statement by Sir Samuel Hoare[8] in Parliament, which was in sympathy with this idea—that there was nothing to be gained at the present time by representations to Japan.

I reminded Sir Ronald that we were always desirous of cooperating with the British in this situation and that I mentioned it now only to reiterate that the views of both our Governments seemed to be running along the same lines.

WILLIAM PHILLIPS

---

[8] New British Secretary of State for Foreign Affairs.

793.94/7138 : Telegram

The Second Secretary of Legation in China (Atcheson) to the Secretary of State

NANKING, July 1, 1935—11 a. m.
[Received July 1—7:40 a. m.]

189. 1. I learn from a ranking official that during a recent Government meeting at which were read telegrams from Chinese missions abroad concerning the reactions of foreign governments to the situation in North China, the Acting Minister for Foreign Affairs made a point of stating that the American Government had shown a very cold attitude to China in these difficulties and that the British Government had been the most sympathetic.

2. The Central Kuomintang activities mentioned in my 181, June 24, 2 p. m.,[9] have not been abandoned. I am confidentially informed by a responsible official that the control yuan has censored Huang Fu for his "weakness" in dealing with the Japanese military in North China last year and that as a result Huang has determined that he will not return to Peiping under any considerations, although the Japanese are understood to favor his return. The informant remarked that the Kuomintang had not yet learned its lesson, that its present activities were of the kind which had brought about the Japanese *démarche* in Hopei, and that the party's continued subversive war against Japanese and against Chinese officials who were trying to keep peace with the Japanese would undoubtedly result in further Japanese interference in Chinese affairs.

3. Another dependable official source states that the Japanese have ceased to press for anything in writing in connection with Hopei and recently withdrew the demand that official appointments there must have prior Japanese approval. Far from viewing the latter development as hopeful, the informant expressed fear that party interference with appointments and appointees would soon irritate the Japanese military and destroy any benefit which might otherwise accrue from an honest effort by loyal officials to deprive the Japanese Army of excuses for taking further action.

4. To the Department and Peiping.

ATCHESON

[9] Not printed.

793.94/7141 : Telegram

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

PEIPING, July 2, 1935—noon.
[Received July 2—7:38 a. m.]

330. Reference my telegram No. 325, June 29, 1 [2] p. m. The Mayor of Peiping stated last evening in confidence that 92 of the men who caused the trouble at Fengtai and on the armored train have been taken into custody; that among them are four retired Japanese military, one Korean and many men of Liu Kuei Tang and Shih Yu Shan; and that more than 20 men believed to be connected with the uprising have been arrested inside Peiping. He said that undoubtedly the men on the armored train expected others within the city to take simultaneous action that night but that the city authorities having had previous information took adequate measures to prevent such action. The Mayor further said that several hundreds of Japanese and Koreans had been arriving daily at Peiping prior to the trouble and that although many of them had been coming for the purpose of exchanging [banknotes?] for silver at Peiping banks and then taking the silver out of the country (a transaction which the Peiping authorities have now made difficult to effect) a considerable number came in the hope of profiting through the political turnover which the recent trouble might have caused. He stated that many of them are still in Peiping hoping to profit from a similar outbreak in the future and that martial law is being continued because the authorities hope thereby to make a complete survey of the situation and an improvement in regard to these armed undesirables: Japanese, Koreans and Chinese.

The Mayor further said that he expected an outbreak similar to the recent trouble before the end of the year, adding that such Japanese military as Doihara and Matsui are opposed to such tactics but that younger Japanese in Tientsin are working for it.

By mail to Tokyo and Nanking.

JOHNSON

761.9315 Manchuria/2 : Telegram

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

Moscow, July 2, 1935—4 p. m.
[Received July 2—11:10 a. m.]

261. My 259 and 260 of July 2nd.[10] The Soviet Government is apprehensive that the succession of incidents on the Soviet-Man-

---

[10] Neither printed.

churian frontier presages a demand from Japan for demilitarization of border zone and the sale of the northern half of Sakhalin Island.

BULLITT

761.93/1556

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

No. 3662 PEIPING, July 3, 1935.
[Received July 27.]

SIR: I have the honor to refer to the Legation's despatch No. 3621 of June 17, 1935, regarding political conditions in Sinkiang, and to enclose a copy of despatch No. L–720 Diplomatic of June 27, 1935, from the Legation at Nanking.[11] It will be observed that, according to that despatch, the Soviet Ambassador to China confirmed the existence of a treaty signed between Sinkiang and Soviet Russia in 1931 and stated that the text as published in China was correct. The despatch also records the recent news report that Ma Chung-ying had arrived in Shanghai by 'plane: the Reuter report as printed in the local press gave Tientsin, instead of Peiping, as General Ma's point of embarkation.

It may be remarked, in connection with the general subject of Sino-Soviet relations, that the Soviet Military Attaché at Peiping, Mr. E. Lepine, recently informed the American Military Attaché that Ambassador Bogomoloff after his return to China had given categorical assurance to Chiang Kai-shek personally that 1) the Soviet Union was not in the least contemplating territorial expansion at the expense of China generally or Sinkiang in particular, and 2) the Soviet Union would support any leader in Sinkiang that the Chinese National Government might designate, provided that such leader would follow a policy of resistance to Japanese penetration of that area.

Respectfully yours, NELSON TRUSLER JOHNSON

893.102S/1361

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

No. 3667 PEIPING, July 3, 1935.
[Received July 27.]

SIR: I have the honor to refer to the Legation's despatch No. 3375 of February 19, 1935,[12] in regard to the Shanghai Defense Scheme and to enclose for the Department's information copies of the Shanghai

[11] Latter not printed.
[12] Not printed.

Consul General's despatches to the Legation No. 8445 of April 25, No. 8710 of June 26,[14] and No. 8719 of June 29, 1935,[14] together with a copy of the Legation's instruction to the Consul General of July 3, 1935.[14]

The Department will note that Rear Admiral Araki, Commanding the Japanese Naval Landing Party at Shanghai, suggested to the other Garrison Commanders a revision of Section (*d*) of paragraph 2 of Part 2 of the Defense Scheme regarding the passage through the Settlement of Chinese troops, which would incorporate the Sino-Japanese Armistice of May 5, 1932,[15] therein, and would serve the purpose of authorizing a condition similar to that which existed in 1932 in the Hongkew district, but that the Commander of the Fourth Marines in Shanghai and the Secretary General of the Municipal Council have replied to the Japanese Commander to the effect that they could not agree to the proposed amendment.

The Legation has replied to the Consul General to the effect that it concurs in the views expressed by Colonel Beaumont and by the Secretary General of the Municipal Council, and that it desires that he maintain a similar attitude toward any attempt of the Japanese to obtain his approval of any claim of prime interest which they may consider that they possess in Hongkew or any other district of Shanghai.

Respectfully yours, NELSON TRUSLER JOHNSON

[Enclosure]

The Consul General at Shanghai (Cunningham) to the Minister in China (Johnson)

No. 8445 SHANGHAI, April 25, 1935.

SIR: I have the honor to refer to the Legation's telegram of March 25, 2 p. m., regarding the Defense Scheme of Shanghai, and to state that a paraphrase of the Department's telegram No. 88 of March 22, 8 p. m., was handed personally to Colonel Beaumont, Commander of the Fourth Regiment, United States Marines. No action has been taken by him, it is believed because of Admiral Upham's[16] letter of March 30, 1935, addressed to the Commander of the Japanese Naval Landing Party, of which the following is a copy:

"Secret 30 March, 1935.

1. Referring to the letter of Rear Admiral S. Araki, Imperial Japanese Landing Party, dated 8 February, 1935, agreeing to the new wording of paragraph two of Part four of the International Defense Scheme subject to two provisions:

[14] Not printed.
[15] *Foreign Relations*, Japan, 1931–1941, vol. I, p. 217.
[16] Admiral Frank B. Upham, Commander in Chief, United States Asiatic Fleet.

Proviso 1—is approved.

Proviso 2—should be revised to read as follows:

'That nothing in the new wording shall prejudice the right of a garrison commander to dispatch his forces to areas external to the perimeter that may be reached without passing through the defense area assigned to another garrison commander.'

2. Referring to the amplification of proviso 2, as submitted by Commander G. Kegure in his letter of 10 February, 1935: In times of stress the passage of foreign troops through a defense sector assigned to a given nation would seem to defeat the very purpose sought in assigning defense sectors to different nationalities. Further, at such time, the intermingling of troops of different nationalities and languages could be provocative of serious friction. Even were a garrison commander to deny the request for passage through his sector, there could result resentment, to say the least.

3. A request by one garrison commander to dispatch his troops through the defense area of another should be acted upon, not by the garrison commander of that area, but by the Defense Committee, each case being considered on its merits."

The foregoing is in reply to the enclosure to my despatch No. 8305 of February 12, 1935.[17] It is believed, due to the seniority of the Commander of the Japanese Naval Landing Party, that the preferable way to handle the revision of the Defense Scheme would be for the American Commander-in-Chief to conduct the correspondence.

I was under the impression that Colonel Beaumont would have further communication with the Japanese Commander to bring the matter in line with the Legation's telegram of March 25, 2 p. m., but a few days ago I consulted with Admiral Upham and he expressed the opinion that his letter concluded the proposed amendment of the Defense Scheme.

In regard to the proposal that the Consuls General of the interested powers should form a part of the Defense Commission, at least in a consultative capacity, I will state that any arrangement made for effecting such a proposal would present many difficulties and should be handled delicately. Therefore it is believed that any such arrangement could more easily be effected if the Department could make the arrangement through channels other than the Consuls General. The British Consul General would probably find difficulty in joining in such a proposal, though I would be very pleased to take up the matter with him and the Consuls General for Japan and France should the Legation so instruct. It is hoped, however, that the arrangement might be made elsewhere than at Shanghai.

Respectfully yours, EDWIN S. CUNNINGHAM

[17] Not printed.

861.00 Congress, Communist International VII/14 : Telegram

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

Moscow, July 4, 1935—9 a. m.
[Received 3:10 p. m.]

263. My 262, July 2.[18] Cachin,[19] leader of the French Communist Party, who has been conferring with Stalin and other leaders of the Soviet Government and the Comintern for the past 2 weeks, confirmed last night Fischer's[20] statement that there would be a congress of the Third International in Moscow the end of this month. Cachin, who has been participating in the preliminary conferences of leaders of the Third International at Kunevo near Moscow, said to me that he would be in Moscow for the congress from July 15 to August 15.

Cachin stated that he had been informed that a few days ago the Japanese Government had demanded definitely that the Soviet Union should sell the northern half of Sakhalin. He added that in spite of all statements to the contrary the leaders of the Soviet Government had an intense fear of Japanese attack.

BULLITT

761.9315 Manchuria/4 : Telegram

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

Moscow, July 4, 1935—6 p. m.
[Received July 5—5:51 a. m.]

266. I discussed with Litvinov today the situation in the Far East. He expressed the opinion that there was no immediate danger of Japanese relenting and asserted positively that the Japanese Government had not demanded the sale of northern half of Saghalien and had not requested the demilitarization of the Far Eastern provinces of Siberia. He stated further that the Japanese Government had proposed that a commission should be established immediately to regulate frontier difficulties and that the Soviet Government had accepted the proposal. He added that he was convinced that the Japanese Government desired peace whatever a few militarists in Japan and Manchuria might desire.

With regard to Abyssinia,[21] he stated that he no longer had the

[18] *Foreign Relations*, The Soviet Union, 1933–1939, p. 220.
[19] Senator Marcel Cachin.
[20] Louis Fischer, American writer.
[21] For correspondence relating to the Ethiopian-Italian conflict, see vol. I, pp. 594 ff.

slightest doubt that Italy would attack but added that he did not believe that such an attack was possible until October 1st because of the condition of the terrain during the rainy season. He asserted that after Mussolini had rejected all proposals which Eden [22] could invent Eden had asked Mussolini "what then do you want?" and that Mussolini had replied by placing his palm on the map of Abyssinia which was lying on the table.

BULLITT

761.9315 Manchuria/5 : Telegram

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

MOSCOW, July 5, 1935—2 p. m.
[Received July 5—12:12 p. m.]

268. Sakoh, Counselor of the Japanese Embassy in Moscow, who conducts all important negotiations with the Foreign Office, the Ambassador being a figurehead, informed Henderson [23] today that the Government of "Manchukuo" was determined not to relinquish its claim to the large island at the juncture of the Amur and Ussuri Rivers near Habarovsk. Sakoh added that the island could be most important from a military point of view and expressed the opinion that the question of ownership might become a grave issue.

Sakoh stated that Japan was prepared to agree to the formation of a boundary commission for the settlement of disputes between the Soviet Union and "Manchukuo" thus confirming Litvinov's statement to me (see my telegram 266, July 4, 6 p. m.). Sakoh denied that the Japanese Government had asked the Soviet Government to sell the northern half of Sakhalin. He stated that his conversations with regard to the joint agreement were progressing slowly but favorably and that he was confident that the agreement would be more favorable to Japan than the previous agreement.

BULLITT

793.94/7154 : Telegram

The Second Secretary of Legation in China (Atcheson) to the Secretary of State

NANKING, July 5, 1935—2 p. m.
[Received 11:10 p. m.[24]]

192. (Section one). 1. The informant in first paragraph of Section two to follow stated that the *New Life* magazine on about May 5 pub-

[22] New British Minister for League of Nations Affairs.
[23] Loy W. Henderson, Second Secretary of Embassy in the Soviet Union.
[24] Telegram in two sections.

lished some paragraph of gossip about Emperors in which it was stated that the Japanese Emperor was not the controlling authority of the Government but was a figurehead in the sense that the King of England is a figurehead. The word "puppet" was used. The article passed unnoticed until it was reprinted more than a month later in the *Ta Pao*, a Chinese vernacular daily published in the French Concession, Tientsin. The Japanese demanded the suppression of both the *Ta Pao* and the *New Life* magazine, the punishment of the publisher later and of the author of the offending article, and an apology by the Mayor of Shanghai. These demands were fully acceded to except as regards the question of punishment. The publisher and author were placed in custody and that question is before the courts and will have to be decided according to law. Later the Japanese learned the article had been passed for publication by the Shanghai Censorship Committee of the Central Kuomintang and they not [*now*] desire to hold the Central Party headquarters responsible for it in addition to insisting that the courts convict the publisher and author, the former being considered an especial enemy because he had at one time successfully competed against Japanese porcelain firms in Mukden and was formerly a friend of Chang Hsueh-liang.

(Section two) 1. Informant cited in section one is a responsible Foreign Office official who spoke with me confidentially this morning.

2. He stated that although the Japanese demands in Shanghai and Tientsin were accepted, the Japanese are dissatisfied because the courts have not yet passed sentence upon the publisher of the magazine and the author of the offending article and the Japanese Embassy yesterday approached the Foreign Office with additional demands including (1) that the Central Party headquarters apologize for the action of the Shanghai censorship committee in passing the article. He was unwilling to describe the demands further. He confirmed the statement in Shanghai's 368, July 2, 5 p. m.[25] that Japanese naval vessels at Shanghai had postponed their departure on account of this matter and said that the Japanese Ambassador had requested them to remain in order to quell any trouble which might be caused by Japanese residents who were being stirred up by the Japanese Military Attaché Isogai. He expressed belief that the matter would be settled between the Foreign Office and the Embassy but remarked that other incidents would occur and that there was some justification for the attempts of some Kuomintang members to cause the impeachment of various officials (see my 189, July 1, 11 a. m., paragraph 2) because each new capitulation to the Japanese merely brought on more demands and there would be no end to this sort of thing. Thus, he added, the Japanese would probably not take any military action in

[25] Not printed.

Shanghai over this case but trouble of some kind would be sure to arise there in the future.

3. Suma of the Japanese Embassy also gave me an account of the case this morning which factually was in substantial agreement. He said that some reorganization of the Kuomintang in Shanghai was necessary and he had now been instructed by his Government to present to the Foreign Office certain demands which, he said he could assure me, were of a mild nature. He said it was true that the Japanese naval vessels in Shanghai had postponed their departure because of this case and not on account of rumors of impending changes in the Chinese Government but there was no possibility of trouble in Shanghai or Nanking and he thought the case would be settled in a few days.

4. To the Legation and Department. By mail to Tokyo and Shanghai.

ATCHESON

793.94/7138 : Telegram

The Secretary of State to the Second Secretary of Legation in China (Atcheson), at Nanking

WASHINGTON, July 5, 1935—6 p. m.

56. Your 189, July 1, 11 a. m.

1. After your telegram arrived, the Department mentioned to the Chinese Minister informally the story of statement of the Minister for Foreign Affairs alleging a "cold attitude" on the part of this Government toward difficulties recently experienced by China, and the Chinese Minister said that he had had similar information.

2. The Department told the Chinese Minister that the American Government's attitude and position with regard to treaty rights and obligations was in no way altered; that the Department during these difficulties had been in communication with the British and other interested Governments; that while the American Government had been actuated by the belief that no useful purpose would be served by making charges either directly or through the press, it had taken steps which had seemed to it appropriate and feasible; that the situation has called for tactful handling and the American Government has refrained from public statements; that the Department has reasoned that the situation would only have been made more acute had the American Government appeared to intrude into the controversy; that the American Government has received certain assurances of which it has made careful note; that the American Government intends to attempt to exert its influence quietly and unobtrusively, to avoid giving any countenance to measures or situations contravening any legitimate

interests or treaty rights, and to continue to keep in contact with the interested powers; that the courses followed by the American and the British Governments have apparently been on parallel lines; and that in the light of the foregoing the Department finds without warrant in fact any allegation that it had shown a "cold attitude."

3. While this digest of statements made informally to Sze is transmitted primarily for the information and guidance of the American Minister and yourself, you may in your discretion, if occasion arises without being made, use its substance orally in conversation with the Political Vice Minister for Foreign Affairs.

4. Repeat to Peiping, as Dept's 199.[26]

HULL

893.00/13417 : Telegram

The Second Secretary of Legation in China (Atcheson) to the Secretary of State

NANKING, July 7, 1935—9 a. m.
[Received 11 a. m.]

196. Legation's 338, July 5, 4 p. m.[27]

1. I have received no information here indicating the imminence of sweeping government changes. Ho Ying-chin told me yesterday that he might return to Peiping shortly although final decision had not been reached. Suma stated July 5 that he felt certain no important changes would occur at this time unless Wang's condition should grow worse. A foreign adviser very close to Sun Fo and other party leaders who has been intimately connected with them for many years and whom I have found straightforward and reliable states confidentially that he is unaware of any move to place Sun in Wang's principal post, that Sun himself is not furthering any such move and plans to leave in a week to spend the summer at Tsingtao. This informant thinks Wang's illness, which is serious although not grave, is political only in that recent criticism and the impeachment of other officials reported in my 194, July 5, 4 p. m.,[27] have so aggravated his ailments through worry that hospitalization became necessary. He states that Wang's greatest danger of being ousted lies in a protracted absence from his duties. He and others consider Sun Fo a logical successor to Wang in case latter should leave office but he pointed out the possible difficulty with elements antagonistic to the Government if Huang Fu's alleged weakness vis-à-vis the Japanese should be given

---

[26] The Department in its telegram No. 63, July 16, 6 p. m., instructed that the above (in paraphrase) be communicated to the Embassy in Japan.

[27] Not printed.

the vindication implied in appointment as Minister for Foreign Affairs although, on the other hand, such appointment might be the only means of retaining Huang's valuable services in dealing with the Japanese should the conciliatory policy continue. He said that Chiang Kai-shek would never relinquish his own post in any manner indicating personal capitulation to the Japanese.

2. In latter connection he made observations which I think are worth noting. He said the Japanese know their aims cannot be realized until Chiang is made to "eat out of their hands" and that the Japanese military are determined to bring this about. Thus, unless Chiang should alter his attitude (which he said Chiang would not) the so-called settlement of North China questions would be ephemeral only and further incidents would occur there and elsewhere. He envisaged a probability, arising from Chiang's recalcitrance and the insatiate nature of Japanese harassment coupled with the criticism suffered by the Government, that the Chinese would eventually attempt resistance. He stated that Chiang's idea, which is being increasingly shared in official circles, is that the penalties of resistance can be no greater than those of acquiescence and that China is too big to be conquered, particularly if some helpful *rapprochement* with Russia can be effected.

To the Department and Legation. To Tokyo by mail.

ATCHESON

793.9414/9 : Telegram

The Second Secretary of Legation in China (Atcheson) to the Secretary of State

NANKING, July 9, 1935—9 a.m.
[Received July 9—3 : 10 a.m.]

199. My June 28, 10 a.m. and Canton's despatch June 5. Administrative Vice Minister of the Navy tells me confidentially that Japanese fishermen and seaweed hunters frequently and without right visit Pratas Reef (Tungshatao) in motor launches but have not attempted to remain thereon and that, contrary to press and other reports, no Japanese naval vessel has been there for a very long time.

To the Legation and the Department. To Tokyo by mail.

ATCHESON

793.94/7161 : Telegram

The Second Secretary of Legation in China (Atcheson) to the Secretary of State

NANKING, July 9, 1935—10 a.m.
[Received July 9—9 : 20 a.m.]

200. My 193, July 5, 3 p.m.[29]

1. On July 6 local press reported that the Central Political Committee of the Kuomintang had issued a circular order to party headquarters throughout the country directing the confiscation of copies of the *New Life* magazine and conveying a general warning against violating the Government mandate of June 10 prohibiting discriminatory or provocative speeches or acts detrimental to international relations, under which mandate the publisher of the *New Life* magazine and author of the offending article are facing trial.

2. A free translation of the Committee's pronouncement is as follows:

"In May this year, the *New Life* weekly of Shanghai published an article insulting the Japanese Imperial family and caused ill feeling among the Japanese. Japan is famous for her loyalty to her ruling family and the way her nationals honor their Emperor is beyond imagination of the general public. A slight carelessness in writing or commenting may cause ill feeling among the Japanese. For a year, this Committee has repeatedly warned against such articles and in most of the cases, the warnings are carefully carried out.

It is most deplorable that the *New Life* weekly published such an article. While the Committee has adequately disposed of the case, a warning must be issued again to prevent recurrence of such incidents in the future. You are, therefore, instructed to warn the publishers, newspapers and news agencies in your respective areas to take precautions against such articles.

In connection with the anti-Japanese movement, the central authorities have repeatedly given instructions that the National Government mandate on June 10 should be carried out. You are instructed to inform all of the comrades and at all times advise the people to faithfully obey these principles."

3. The press reports that in an interview the chairman of the Central Publicity Committee stated that the Kuomintang members unanimously endorse the statements concerning policy toward Japan issued by Chiang Kai-shek and Wang Ching-wei on February 1st and 20 and the Central News Agency states today that the case is settled.

4. To the Legation and Department. To Shanghai and Tokyo by mail.

ATCHESON

[29] Not printed.

761.9315 Manchuria/6 : Telegram

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

TOKYO, July 9, 1935—noon.
[Received July 9—3 : 35 a. m.]

146. Department's 100, July 3, 6 p. m.,[80] Soviet-Japanese relations. The following facts and opinions have been brought out in recent conversations with the Soviet Ambassador and Counsellor separately.

1. The Soviet Government will not sell North Saghalien to Japan but will retain it for various economic strategic and patriotic reasons.

2. The Soviet Government will not agree to the creation of a demilitarized zone on the Soviet side of the Soviet-"Manchukuo" border as to do so would be tantamount to relinquishing a part of its sovereignty over its territory and because it is not necessary, the Soviet fortifications being only defensive in character.

3. The Soviet Government however might consider a measure of disarmament in the Far East provided that the Japanese will take into consideration the fact that the Far Eastern Red army is operating 10,000 kilometers from its center of supplies and might therefore agree to a stronger Soviet than Japanese force on the Asiatic mainland.

4. The recent numerous border incidents were due largely to overzealous young officers desirous of recognition. Further the Japanese Army just now is endeavoring to justify its budget demands.

5. The proposed border commission must not be tripartite as that would give two Japanese votes to one Soviet vote, but must provide equal representation for the Soviets. The commission will only adjudicate border incidents and will not delimit the frontier, the Soviet Government holding that the frontier was definitely and permanently delimited by the Sino-Russian treaty of 1860.[81] This delimitation included the islands in the Amur River, regarding the ownership of which there can therefore be no legitimate dispute.

6. The Japanese demands in regard to fisheries are not unreasonable and can probably be settled in time by diplomatic negotiation.

7. There are no questions pending between the Soviet Union and Japan at present which need give cause for alarm, but the danger always exists that a border incident may flare into a conflagration which no one could stop.

End of résumé of information given us by Soviet Embassy.

I am of the opinion that Japan is not at present in a position to finance the purchase of North Saghalien, even were the Soviets willing to sell. Moreover, it would appear that the Japanese Army is at present preoccupied with its North China and other problems and is not likely to press a demand for a demilitarized zone along the Soviet-"Manchukuo" border.

GREW

[80] Reporting Ambassador Bullitt's telegram No. 261, July 2, 4 p. m., p. 288.
[81] Signed at Peking, November 2/14, 1860, *British and Foreign State Papers*, vol. LIII, p. 970.

793.94/7164 : Telegram

The Second Secretary of Legation in China (Atcheson) to the Secretary of State

NANKING, July 9, 1935—noon.
[Received 9 : 03 p. m.[82]]

202. Since June 26, Huang Shao-hsiung, Chen Yi, Hsiung Shih-hui and Chang Chun, respectively chairmen of the Provincial Governments of Chekiang, Fukien, Kiangsi and Hupeh, has [*have*] been conferring with Government leaders in Nanking and Shanghai ostensibly in regard to conditions in their provinces, and the Chekiang chairman is now en route to Chengtu to see Chiang Kai-shek.

I am confidentially informed that last week in Shanghai this group conferred with officials of the Japanese Embassy and decided, as a possible means of gaining China at least a temporary respite from further Japanese encroachments, to recommend to the Chinese Government acceptance of a Japanese proposal that the Chinese and Japanese Governments draw up a protocol providing *inter alia* for mutual defense in case of attack by [a] third party. The informant states the proposal does not have the approval of Wang Ching-wei and that the purpose of Huang Shao-hsiung's journey to Chengtu is to seek the approval of Chiang Kai-shek. He predicts that if any such protocol is signed the appointment of Japanese military advisers to the Chinese Army will inevitably follow in time.

To the Legation and Department. To Tokyo by mail.

ATCHESON

761.93/1555

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

No. 693

MOSCOW, July 9, 1935.
[Received July 25.]

SIR: With reference to the Department's Instruction, No. 351, of April 22, 1935,[83] expressing its desire to obtain information with respect to a secret agreement said to have been concluded in 1932 between the Soviet Union and the Province of Sinkiang, I have the honor to enclose [84] a memorandum setting forth certain statements relating to the treaty relations between Sinkiang and the Soviet Union made by Mr. Nanju-Wu, Counselor of the Chinese Embassy at Moscow, and a "free translation" into English of the Chinese text of the Soviet-Sinkiang Treaty of October 1, 1931, handed by Mr. Wu to a member of the Embassy staff.

[82] Telegram in two sections.
[83] Not printed; see footnote 24, p. 120.
[84] Enclosures not printed.

It will be noted that, according to statements made by Mr. Wu, the Treaty of October 1, 1931, represents the only agreement concluded between the Soviet Government and the Provincial Government of Sinkiang. He says that the Central Government of China has not ratified it and does not intend to do so.

An examination of the translation of the treaty, which is being submitted without editing, as received from the Chinese Embassy, tends to confirm Mr. Wu's statements that it is of a temporary nature and is to become ineffective upon the conclusion of a general Soviet-Chinese commercial treaty. Such a general treaty, according to Mr. Wu, is being negotiated at the present time at Nanking.

The ambitions of the Soviet Government with respect to Sinkiang are reflected in paragraph 6 of the treaty, in which the hope is expressed that "the Soviet Government, in high consideration of the economic interests of the people of Sinkiang" will, through commercial transactions, supply them with "all the machinery necessary for industrial, electrical, agricultural, and communications development, and likewise be responsible for all the necessary technical experts as well as for the training of technicians from among the Chinese people to undertake the reconstruction of Sinkiang."

It will also be observed that in Annex 2 to the Treaty, the Soviet Government proposes to establish financial bureaus in certain points in Sinkiang which "would be disposed" to grant financial and other assistance to Chinese commercial houses and merchants.

Respectfully yours, WILLIAM C. BULLITT

893.01 Outer Mongolia/12 : Telegram

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

PEIPING, July 10, 1935—4 p. m.
[Received July 10—10 : 10 a. m.[35]]

348. Legation's telegram No. 324, June 29, noon. According to information received from the Soviet Embassy here the two persons, a Japanese topographer, Inukai, and a White Russian, Khabibula, detained on June 23 by the Mongol authorities were both in the service of the Japanese Army and the two men signed a statement while in detention to the effect that they were actually in Outer Mongolian territory when arrested.

The "Manchukuo" representative at the Manchuli conference presented on June 27 certain demands to the Outer Mongolian representative, Sambu, as follows:

---

[35] Telegram in two sections.

(1) the arrested persons shall be immediately released,
(2) the Government of Outer Mongolia shall apologize to "Manchukuo" for the incident,
(3) those responsible for the occurrence shall be punished.

The two arrested persons were released on June 27.

The same "Manchukuo" representative handed Sambu a communication on July 4 incorporating the following demands:

(1) that Outer Mongolia shall assume all responsibility for the occurrence,
(2) those responsible for the incident "must be brought to account,"
(3) "Manchukuo" shall have the right to send representatives to reside permanently at certain points in Outer Mongolia,
(4) those representatives shall be given the right to maintain communications with "Manchukuo" and to enjoy freedom of movement in Outer Mongolia.

Should these requests not be granted, the communication stated, "Manchukuo" will demand withdrawal "toward" Tamsykune (in the region south of Buirnor) of Mongol forces located east of that point.

Saldii, the chief Japanese officer of the military mission at Manchuli, called upon Sambu on July 4 and confirmed and amplified the "Manchukuo" communication of the same date. He presented demands of the Kwantung Army that the Army be granted the right to despatch representatives into Outer Mongolia and to construct telegraph lines to facilitate communication between those representatives and their headquarters.

Sambu has already made on behalf of the Government of Outer Mongolia the following reply:

(1) although the arrested persons were detained in Mongol territory they were actually released prior to receipt of any demands, this evidencing the good will of the Mongol authorities,
(2) the greater part of the belongings of the arrested persons was returned to them at the time of their release and orders have been issued for the return of the remainder of their property,
(3) to prevent a repetition of such occurrences and to provide means for the settlement of any problems which may arise between the two countries it is suggested that there be established a Mongol-"Manchukuo" commission,
(4) that commission would in the present case establish the locus of the incident and the authorities of Outer Mongolia would punish guilty persons and render appropriate apologies should it be discovered that affair occurred in "Manchukuo" territory.

The Counsellor of the Soviet Embassy gave it as his opinion that the Kwantung Army was not at this time prepared to force matters to an open break and armed conflict but he considered that the incident was a result of general Japanese pressure forward "on all fronts in Asia" and that it could probably be considered a forerunner of others

to come. Particularly he said the Kwantung Army feels the necessity for reasons of military strategy, of straightening out salient of the projection eastward from Buirnor of the Outer Mongolian boundary.

Repeated by mail Tokyo, Nanking and Harbin.

JOHNSON

793.94/7231

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

No. 3679 PEIPING, July 10, 1935.
[Received August 5.]

SIR: In my despatch dated May 1st at Nanking I pointed out that Japan's policy towards China has been adopted as a means of meeting the problem of her population, and that in carrying out this policy Japan wavers between the more positive plans of the military and the more negative plans of the liberal, organized industrial leaders. I expressed the opinion that, reacting to the disillusionment regarding the benefits to be derived from the newly acquired position in Manchuria, the Japanese military group were then apparently prepared to give the more liberal element in Japan—represented by a part of the Foreign Office—and Japanese industry, an opportunity to win benefits from the Chinese by a more conciliatory policy. I was the more convinced of this willingness of the military to make way for the policy of Japan's Foreign Office when it was made known in Tokyo early in May that Japan intended to raise the status of its Legation in China to that of an Embassy. Informed persons, Japanese as well as Chinese, accepted this announcement from Tokyo as indicating a triumph for the Foreign Minister, Mr. Hirota. It therefore came as something of a shock to learn from the press that, almost immediately upon this announcement, the military leaders questioned the decision of the Foreign Office and expressed their disapproval.

There are times when it seems as though the Japanese military were afflicted with an inferiority complex, accentuated by their failure in recent years in inducing the various peoples of the East, and particularly the Chinese, voluntarily to unite under Japanese leadership and the banner of Pan-Asianism. In my despatch of May 1st above referred to I mentioned the evidences of incompatibility as between Chinese and Japanese. Sometimes it seems as though the Japanese military, in the face of this incompatibility, harbor a feeling of thwarted effort that leads them to desire to force the Chinese to give them what they cannot obtain voluntarily. I have no doubt that the military leaders of Japan are imbued with high ideals for the welfare and position of the yellow races among whom they aspire to be

leaders. But there are times when I feel that they resent deeply the fact that the races they desire to lead have not evidenced their appreciation of that idealism.

The Japanese Foreign Office was just as well informed of the activities of the Chinese Nationalist Party (Kuomintang) and its general attitude of anti-foreignism and anti-Japanism as was the Japanese military. But whereas the Foreign Office and industrial Japan, along with the rest of the world, were apparently prepared to let the Kuomintang work its own way out of the absurdities of its present activities, the military, seeing the Chinese recalcitrant and believing that the Foreign Office by its policy of conciliation was stultifying itself in the eyes of the rest of the world and particularly in the eyes of the "cunning" Chinese, was resolved to deal a drastic and forceful blow at the Chinese institutions which in their minds were guilty of deception and insincerity. Mixed with this, of course, was the desire to make clear to the Chinese and to the Japanese that no one might act in any of these matters without the approval of the military general staff, the real rulers of Japan. By means of threats and the movement of various units of the Army to points of strategic advantage, the military were able to force the Chinese to shift all of their political organizations out of Hopei and Chahar Provinces, and to move away the armed forces of the Central Government. The military succeeded in obtaining the elimination from this area of every official to which they were opposed, so that now the Chinese Government will hardly dare to assign to this area an official to whom the Japanese may for some reason or another object.

Among those officers of the Chinese Government who received their training in Europe or in America there is a belief that as Japanese influence increases there will be a constantly diminishing opportunity for Chinese so trained to hold office. They believe that the Japanese military, after eradicating the Kuomintang, intend to eliminate from positions of responsibility Westernized Chinese, whom they are disposed to blame for China's employment of advisers of European and American nationality. There is reason to believe that the Japanese military resent the employment by China of European or American advisers as a studied insult to Japanese ability to furnish advisers of equal qualifications and, according to Japanese belief, peculiarly endowed with idealistic interest in the welfare of the yellow peoples and therefore better able to do the work which the yellow people under Japanese leadership will require.

An atmosphere of gloom and fear now permeates Chinese Government offices such as is difficult to appreciate except by those who have contact with those offices and who see and talk with the men who head the various departments. Wang Ching-wei, President of the Execu-

tive Yuan and Acting Minister for Foreign Affairs, is and for some time has been a very sick man, but there is no doubt that his recent collapse has been brought about in large measure by the worry and fear which Japanese military, acting independently of the Japanese Foreign Office, have been able to inspire, to the point where the functions of the Government are almost paralyzed. No Chinese official feels secure. At any moment the visiting card of a hitherto unheard-of Japanese Major or Colonel may be presented to him and he knows that he is in for an interview with a man whose slightest opinion may become the active policy of the Japanese military, who are always ready to move.

Nothing is too absurd to occupy their attention. Take the instance of the publication in the *New Life* Magazine at Shanghai of an article containing certain observations on kings and emperors. I have not seen the article in question, but apparently it was a general article commenting upon various monarchs and describing their positions in their several governments. Among these comments which included statements regarding the King of England, there was one which described the Japanese Emperor as the figurehead of the Japanese state. Apparently the article was not noticed until it was reprinted in a daily newspaper in Tientsin where it fell under the eagle eye of the newspaper readers attached to the Kwantung Army Commandant who immediately demanded the punishment of the editor, holding that the article was an insult to the Japanese Emperor. It was then discovered that the article had been originally printed in the *New Life* Magazine a month before in Shanghai, so they demanded the punishment of the editor of the *New Life* Magazine. It was then discovered that the publication in question had been passed by the censors, and as the censors are connected with the Kuomintang or Nationalist Party organization, naturally the whole thing connects itself with the Japanese campaign against the Kuomintang. And out of this—to any one else absurd—incident grows a situation in Shanghai which may furnish the necessary excuse for the Japanese Army and Navy to do in the Yangtze Valley what they have already accomplished in North China. It would be laughable if it were not so serious.

The result is that, so real is the fear which the Japanese military have succeeded in breeding in the minds of the Chinese, they can now obtain anything they wish. No Chinese would dare oppose any request that the Japanese may make; and I expect to see Japanese activities, political and economic, increase in China from now on, in fields in which perhaps no one but a Japanese would care to venture; this for the simple reason that the Japanese Army is prepared to police Japanese efforts in this area where otherwise they would not be able to control and exploit China's resources.

In my despatch of May 1st I expressed myself as pessimistic of the ultimate outcome. I see no reason to change my point of view, but apparently the Japanese military must continue the expenditure of their efforts and of Japanese treasure, whatever their end is to be. The Japanese Army is determined to break China to its will, whatever the consequences may be.

Respectfully yours, NELSON TRUSLER JOHNSON

893.00/13170

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

No. 3675 PEIPING, July 12, 1935.
[Received August 5.]

SIR: I have the honor to refer to the Legation's despatch No. 3247 of January 9, 1935,[36] reviewing political, military, and economic developments in China during 1934, and to submit a similar review of developments which occurred during the first six months of 1935.

Although few outstanding events took place during this period, there were developments of primary significance in China's chief problems of unity, economic affairs and finance, and foreign relations.

I. *National Unity:*

Obtaining substantial control of the provincial administrations of Szechuan and Kweichow, General Chiang Kai-shek increased the number of provinces within the sphere of his dominance from nine of the twenty-three provinces of China to eleven and, at the same time, prepared the way for adding Yunnan to that number.

With this persistent encircling of the semi-autonomous provinces of Kwangtung and Kwangsi, the relations between General Chiang Kai-shek and the military leaders of those two provinces appeared to be approaching a crisis. This development was accelerated by the collapse in May and June of the strength of the civilian political group of the Southwest: there was thus removed a barrier to *rapprochement* with General Chiang, as well as a barrier to the alternative Japanese-financed rebellion against the Generalissimo.

General Chiang's authority in North China, which had been given a semblance of extension during 1934 as a result of visits of North China leaders to General Chiang and of his tour of the northern provinces, was gravely impaired by activities of the Japanese military designed, apparently, for the eventual separation of the five northern provinces from the National Government. Meanwhile, General Chiang's control of Fukien Province, acquired only in January 1934, was threatened by Japanese ambition.

---

[36] *Foreign Relations*, 1934, vol. III, p. 344.

Notwithstanding the importance of these problems, General Chiang Kai-shek's attention continued to be primarily engaged by his campaign against communist forces. By the end of the period under review, the communist forces which had been expelled from Kiangsi Province in the autumn of 1934 had apparently effected a junction in western Szechuan with the communist forces which had been in northeastern Szechuan, this junction giving them an unbroken, semicircular line of defense from the north bank of the Yangtze River in southwestern Szechuan to Pingwu, northeast of Chengtu. The advantages of this position were that the terrain made attack difficult and that the communists might be able to obtain supplies from Sinkiang, where Soviet Russia's influence is allegedly strong; the disadvantage was that the area was so poor that the problem of existing through the coming winter would be a serious one.

Meanwhile there continued to be communist forces scattered in various provinces under General Chiang's control, these forces in themselves presenting minor problems but, because of the increasingly serious economic situation of the country, constituting a potential menace.

As for China's periphery, the possibility of Inner Mongolia's remaining even nominally under the National Government became remote as a result of the Japanese activities in respect to Chahar Province; Sinkiang continued to be as much under the influence of Soviet Russia as previously; and relations with Tibet remained nebulous.

In short, General Chiang's newly acquired influence in Szechuan, Kweichow, and Yunnan as a factor on the side of Chinese unity was more than balanced by the fact that the unity created by the military strength of General Chiang Kai-shek was threatened by Japanese activities, by increasing economic and financial ills, by the continuing existence of the communist organizations, and by jealousy of various Chinese leaders of General Chiang's ascendancy.

II. *Economy and Finance:*

As no competent program was put into effect to cope with China's economic problems, general deterioration of China's economy continued, with the result that purchasing power, revenue, and foreign trade declined; the monthly deficit and military expenditures of the National Government were not curtailed; the new draft national budget was larger than the budget for the fiscal year just ended; significant reforms in excessive taxation were not effected; political corruption still sapped national resources; and the outlook for agriculture for the year was depressed in part because of droughts and threatening floods.

The financial situation grew worse as a result of the operation of economic factors, causing general political instability and directly

leading to frozen assets, tight credit, appreciation of silver values, smuggling of silver from the country on a large scale with consequent decline in silver resources, and inability to obtain a foreign loan. The three principal measures taken by the Government to counteract the situation were (1) the tightening of measures designed to check silver smuggling; (2) extension of its control over two leading Chinese banks in what was apparently an initial step in a program to obtain control of the chief banks of note-issues; and (3) the issuance of two $100,000,000 (Chinese currency) bond issues (April 1 and June 30). The latter two measures were regarded as leading toward an almost inevitable inflation of Chinese currency and toward an increasingly grave situation, possibly affecting the stability of the present government, from which there seemed to be no way out except perhaps some agreement with Japan injurious to China's political and territorial integrity.

III. *Foreign Relations:*

Great Britain was regarded during the period under review more favorably in public opinion in China than any other foreign nation, due to (1) the effecting of an agreement to establish a Sino-British commission for the delimitation of the disputed Burma-Yunnan border; (2) the appointment to the British Embassy in China as temporary Financial Adviser of Sir Frederick Leith Ross, Chief Economic Adviser to the British Government, an appointment interpreted as due to Great Britain's deep concern over China's precarious financial situation; and (3) allegedly greater sympathy for China by Great Britain than other countries during Japan's most recent aggression. Sino-French relations were somewhat improved by reputed completion of negotiations of a Franco-Chinese commercial convention with regard to French Indo-China which would presumably give a commercial weapon to China for use against Siam. Relations with Siam deteriorated as a result of (1) oppressive measures of Siam against resident Chinese; (2) continued refusal of Siam to exchange diplomatic representatives; and (3) reports of increasing Japanese influence in that country. Soviet Russia continued to be regarded with suspicion because of (1) Soviet Russia's influence in Sinkiang Province and (2) the transfer to "Manchukuo" of Soviet Russia's interests in the Chinese Eastern Railway without regard for the legality of the proceedings or for Chinese feeling. The fact that the silver policy of the United States was the most obvious of the several causes of China's acute financial situation aroused adverse comment. Criticism was perhaps augmented by the silence of the United States in the face of recent Japanese aggression and by the growing feeling in China that America's traditional sympathy had little practical application. The raising of the status of legations in China to that of embassies by the United

States, Great Britain, Japan, France, and Germany had no real effect on the Chinese. There was no evidence that China would improve her attitude toward western nations; that she has any real respect for any of them; that she would not play one off against another when opportunity presented itself; nor that she would not make concessions to Japan which could only be made at the expense of other nations.

China's relations with Japan were of the greatest importance. After effecting, presumably, the fulfillment of most of the agreements reached at the time of the conclusion of the Tangku Truce of May 31, 1933, the Japanese military early in the present year apparently turned over the direction of Japanese policy in China to Japanese diplomats, the military standing by, outwardly passive. Chinese officials began to prepare the Chinese nation for some degree of yielding to Japan's aggressive desires. In May, however, dissatisfied with the slow rate of progress, skeptical of the ability of the Japanese diplomats to gain the objectives desired by the military, and influenced by factors existing in Japan's internal situation, the Japanese military again assumed substantial control of policy in China. The immediate aim of their action appeared to be the establishment of a regime nominally under Nanking but staffed with Chinese officials "friendly" to Japan and to "Manchukuo" which could conclude with the Japanese economic and financial agreements affecting North China and which might easily make way for a regime entirely independent of the National Government and subservient to Japanese direction. The ultimate aim of the military appeared to be the expansion of control over China, with the elimination of any effective military opposition in China, to facilitate Japanese exploitation of the Asiatic mainland, and to give to the Chinese situation stability which would help instead of hinder Japan in the event of a Russo-Japanese war.

In contrast with the past, a feeling of despondency has apparently taken possession of the Chinese, causing them to react to Japanese aggression in comparative silence. Worry over the situation seems to have eliminated Mr. Wang Ching-wei, at least for the time being, and to have caused General Chiang Kai-shek to become more anonymous than in the past, leaving the Government at Nanking practically without a head.

The appearance of inevitability of Chinese submission to the Japanese will was relieved, however, by the new and apparently serious contemplation by some Chinese officials of the question whether it might not be better to resist Japan militarily in the near future in order that, as China is to be ruined regardless of what policy she follows, Japan would also be ruined by long and exhausting warfare.

Respectfully yours, NELSON TRUSLER JOHNSON

792998—53——27

761.948/132 : Telegram

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

Moscow, July 14, 1935—6 p. m.
[Received July 15—3: 45 a. m.]

288. At the close of our conversation, reported in my No. 287, July 15 [*14*], 5 p. m.,[37] I asked Sakoh about the status of his fisheries negotiations with the Soviet Foreign Office. He said that he had made demands which the Soviet Government absolutely refused to accept. He added that every other day he calls at the Foreign Office and repeats his demands. He predicted that the Soviet Government would continue to reject his proposals until the last moment before the expiration of the present fisheries convention. "The convention expires May 23, 1936. The Soviet Government will accept my demands on May 21, 1936," said Sakoh.

In discussing the border commission which the Japanese and Russian Governments have agreed to establish Sakoh states that Yurenev, Soviet Ambassador to Japan, had insisted on a reservation excluding the status of the island in the Amur River opposite Habarovsk from the discussions of the commission, "however the commission will discuss it," said Sakoh.

BULLITT

893.102 S/1364

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

No. 3690 PEIPING, July 15, 1935.
[Received August 10.]

SIR: I have the honor to refer to the Shanghai Consul General's despatch to the Department No. 9069 of August 17, 1933,[38] in regard to the usurpation of the Shanghai Municipal Council's functions by the Japanese, and to invite the Department's attention to the following subsequent despatches from the Consulate General at Shanghai and from the Legation which tend to show an increasing interest in Shanghai on the part of the Japanese and an increasing determination to assert themselves in matters affecting that port.

In the despatch referred to above, Mr. Cunningham stated that the Municipal Council had not been able to re-assert its jurisdiction in the Hongkew and Yangtszepoo districts and invited attention to the fact that 1) the Japanese were constructing on an Extra-Settlement

[37] Not printed.
[38] *Foreign Relations*, 1933, vol. III, p. 392.

road without the license of the Municipal authorities a huge building of permanent structure equally suitable for a military barracks or a civic administration building, 2) that the Japanese Residents' Corporation had intimated in rather strong terms to the Municipal Council the desire of the Japanese community for a larger voice in the administration of the Settlement and larger representation on the Municipal police force, 3) that the Japanese consular police had been materially increased in number and often functioned, so far as Japanese residents were concerned, without consideration of, and adversely to, the Shanghai Municipal police, as evidenced among other things by the existence of a large number of Japanese cabarets, restaurants and bars operating without license of the Municipal Council. (See also Shanghai Consul General's despatches, 9549, July 10, 1934, 9772, December 15, 1934, *et seq.*[39])

Since the Consul General's despatch referred to above, there has been an accumulating amount of evidence tending to indicate that the Japanese intend to have a larger voice, if not a predominant one, in matters affecting the Port of Shanghai.

Japanese Residents' Corporation.

The Japanese Residents' Corporation, an organization created under Japanese law, and greatly influenced, if not directed from Tokyo by the Japanese Government, appears to constitute, in effect, a municipality within the Settlement which would be capable of extensive expansion. It serves to unify the Japanese in the community and to direct the policy of that community in matters affecting Japanese interests. (See Shanghai Consul General's despatches to the Department 9876, February 11, 1935; 9986, April 8, 1935 [39]). Among other things, it has proposed the abandonment of the International Settlement Schools, and the substitution therefor of subsidies to schools of foreign communities based on the number of school children or the number of rate payers of the respective nationalities, a change which would indubitably benefit the Japanese, (see the Shanghai Consul General's despatch to the Department 9762, December 7, 1934, November Political Report [40]), and prior to each election of Councilors, there are rumors that the Japanese intend to exercise their superior voting power to obtain larger representation on the Municipal Council.

Extra-Settlement Roads.

In the matter of the Extra-Settlement roads, the Department will recall that as the result of extended discussions there emerged in June of 1932 a proposed *modus vivendi* [41] which was initialed by the repre-

[39] Neither printed.
[40] Not printed.
[41] See telegram No. 280, June 4, 1932, 1 p. m., from the Consul General at Shanghai, *Foreign Relations*, 1932, vol. IV, p. 632.

sentatives of the City Government of Greater Shanghai and of the Shanghai Municipal Council, but which failed of acceptance, although approved by the American and British authorities, because of the opposition of the Japanese, who took exception to various clauses, but particularly to the provisions governing police control. Continued negotiations eventually resulted in agreement concerning the personnel of the police force, whereby the Japanese were given special consideration as compared with other nations, but there remained to be settled the question of the area to be covered by the agreement. On this point the Japanese have again demanded special consideration in the area in which they are primarily interested, and it appears that they will be able to obtain their desires, the Mayor of Greater Shanghai having assured the Japanese Consul General that no agreement upon the question would be concluded with the Municipal Council without Japanese approval. (See Shanghai Consul General's despatches to the Department 9964, March 21, 1935; [43] to the Legation 8705, June 24, 1935, also to the Department presumably under similar date; [44] and the Legation's telegram to the Department 131, March 29, 1935, 1 p. m.[43])

Pilotage Regulations.

The Department will recall also that after extended informal negotiations, the Chinese Government was induced to modify the new pilotage regulations in a manner making them acceptable to the American and British Governments, but that the Japanese have blocked all efforts of the Chinese to enforce the new regulations by their refusal to acquiesce therein. It remains to be seen whether the Japanese will not demand, and receive, some special consideration in this regard. (See Legation's despatch to the Department 3505, April 12, 1935,[45] and previous).

District Court.

When it became necessary in 1933 to revise or to extend the agreement covering the functioning of the Chinese courts in the International Settlement, the Department will recall that the agreement was eventually extended without the participation of the Japanese Government, but that the Japanese Minister hastened to present a *Note Verbale* to the Chinese Foreign Office asserting the right of the Japanese Government to participate in any future negotiations for the revision or the amendment of the Agreement, and at the same time took measures to inform the other interested Powers of the Japanese position in the matter. (See Legation's despatch to the Department 1983, March 2, 1933 [46]).

[43] Not printed.
[44] Apparently not sent to the Department.
[45] *Post*, p. 799.
[46] Not printed; see footnote 68, *Foreign Relations*, 1933, vol. III, p. 620.

Defense Scheme.

More recently, it will be recalled that the Japanese have gone so far as to endeavor to have the Sino-Japanese Armistice of May 5, 1932,[47] incorporated into the Shanghai Defense Scheme, thus apparently seeking to obtain the sanction of the other interested Powers of future action similar to that taken by the Japanese in 1932. (See the Legation's despatch to the Department 3667, July 3, 1935).

Mr. Cunningham's despatches indicate that the Municipal Council has in recent years given considerable evidence of timidity in handling matters affecting Japanese interests in Shanghai, and that Japanese consular police and members of the Japanese Naval Landing Party continue to function in disregard of the Municipal administration. The Municipal police authorities were prevented by the Japanese Naval Landing Party from functioning in a case of assault by Japanese sailors on a Chinese woman, (see Shanghai Consul General's despatch to the Department 9549, July 10, 1934[48]). The Japanese Naval Landing Party functioned in disregard of the Municipal administration and arrested an American citizen, (see Shanghai Consul General's despatches to the Department 9772, December 15, 1934,[48] *et seq.*), and, more recently, the Japanese ratepayers have been successful in having set aside an agreement between the Municipal Council and the Shanghai Telephone Company, thereby preventing for the time being an increase in rates authorized by the franchise. (See Shanghai Consul General's despatch to the Department 10,167, June 29, 1935[48]). In addition, there is the increasing prominence of the Japanese armed forces in Shanghai as evidenced by their frequent and realistic manoeuvers. (See Shanghai Consul General's despatches to the Department 9782, December 24, 1934;[49] 9798, January 7, 1935;[48] and 10,022, April 29, 1935[48]).

It appears to the Legation that the above events indicate the possible existence of a preconceived plan of the Japanese Government to go its own way in Shanghai without much regard for the rights or interests of the other foreign Powers, that the Governments concerned must be prepared to look forward to a steadily increasing Japanese influence in matters affecting Shanghai, and that, with the passage of time, Japan will assert, and if the present passive attitude of the other interested Powers continues will assert successfully, a paramount influence in Shanghai.

Respectfully yours, NELSON TRUSLER JOHNSON

---

[47] *Foreign Relations*, Japan, 1931–1941, vol. I, p. 217.
[48] Not printed.
[49] *Foreign Relations*, 1934, vol. III, p. 342.

793.94/7186 : Telegram

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

TOKYO, July 16, 1935—4 p. m.
[Received July 16—5 : 30 a. m.]

151. It is announced that General Masaki, Director General of Military Education, has been relieved of his post owing to his objections to certain changes in Army personnel planned by the Minister of War with the approval of Chief of the General Staff, Prince Kanin, a member of the Imperial family.

The Minister for Foreign Affairs told me today that the incident is significant as indicating the control of the Government which must necessarily move slowly and step by step (reference Embassy's 143, June 29, 11 a. m.). In this specific connection Hirota took occasion to thank me in appreciative terms for the fact that we had not asked him official questions during the crisis in North China because such questions would have rendered all the more difficult his efforts to control the situation.

I am to have a final talk with Hirota on Thursday at 11 a. m. If the Department has any specific views which it would like to have brought to the Minister's attention as casual comment rather than as official representations, this would be a favorable opportunity to do so.[51]

GREW

793.94/7192 : Telegram

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

SHANGHAI, July 17, 1935—1 p. m.
[Received July 17—6 : 23 a. m.]

404. A foreigner in a position to be well informed stated in a letter dated July 11 to Captain J. M. McHugh that General Chiang Kai-shek viewed [*reviewed?*] the situation in reference to Japan and that Chiang put forth the arguments that to fight now is what Japan wants; to fight and lose would give Japan the notion that she had won the war and would demand signed settlement. To fight would let the Reds loose in this [area] to the complete control of Szechuan and perhaps the Northwest. To let the Japs steal what they felt inclined to steal without acknowledging it and without signing anything keeps Japan in the wrong, and if China will profit by the humiliation to reorganize and develop unity and patriotism it will be worth while, for in time they can get back what has been taken. Chiang

[51] For reply, see Department's telegram No. 109, July 16, 8 p. m., p. 981.

argued that the Reds must be exterminated first; second, the country must be reorganized; third, the Army must be reorganized; fourth, determined efforts must be made to develop the whole of the West—Yunnan, Kweichow, Szechuan, Kansu, as well as Shensi, Hupeh and Hunan—but particularly Szechuan, Kansu and Kweichow, where there is plenty of mineral and agricultural wealth if properly developed on modern lines. He urges to keep at this work and if the Japanese try to enforce their control on the Yangtze region to resist.

CUNNINGHAM

792.94/22

The Minister in Siam (Baker) to the Secretary of State

No. 250 BANGKOK, July 18, 1935.
[Received August 9.]

SIR: I have the honor to transmit the following reply to the Department's instruction No. 88, of May 21, 1935,[52] concerning relations between Siam and Japan.

Since the abdication of King Prajadhipok, which occurred March 2, 1935, the press releases from Tokyo to American newspapers, especially those to the *New York Times*, have been frequent and persistent in asserting the existence of a close alliance between Siam and Japan and have stated in fact that a secret treaty exists between the two countries.

On May 4th Prince Varnvaidya, Adviser to the Premier, addressed a personal note to me in relation to this subject. A copy of the note, which is self-explanatory, is enclosed.[53]

The receipt of the note from Prince Varnvaidya gave me the opportunity for a conference with the Premier, which I obtained immediately. At this conference it was suggested to me that I issue a statement as minister to the Associated Press here, based upon the authority of the Siamese Government, making a denial of the statements published in the *New York Times*, whereupon I suggested that a denial by Prince Damras, the Siamese Minister in Washington, under instructions from the Siamese Government, would be decidedly more effective. I called attention especially to the statement about a secret treaty, and the Premier stated that specific denial would be made to that statement. This latter course was taken. A copy of the statement as published is enclosed.[54]

Immediately upon the receipt here in July of the *New York Times* containing the statement of Prince Damras, I delivered a copy of the

---

[52] Not printed; see reply to the Siamese Minister on May 21, p. 178.
[53] Not printed.
[54] *New York Times*, May 25, 1935, p. 7, col. 5.

statement to the Premier, who was very much pleased with the authorized published statement. This statement, since it bears the authorization of the Siamese Government, should have an excellent effect, except possibly in Japan. I have received comments upon it from both the British and French Legations.

Between May 2nd and July 6th I have had several interesting interviews with the Premier which have touched upon the foreign relations of Siam, particularly those with Japan. On June 11th the Premier informed me that he had a report from Prince Damras that the statement of the Siamese Government, as above mentioned, had been published in the *New York Times*. In the same interview he discussed the text of the statement and gave me an outline of the policies of the Siamese Government. Among his remarks he stated that there would be no entangling alliances with other nations; that the Government's main objectives were to better the conditions of the Siamese people, particularly the farmers, and to improve educational facilities; that his Government was seeking to increase the national export of rice; and that it intended to maintain pleasant commercial relations with all countries. He mentioned the fact that Siam was on friendly terms with Japan and had given concerns of that nation contracts for the construction of two vessels, as they were the lowest bidders, also saying that two Japanese road engineers had been employed for road construction work for the reason that their compensation was low, and that some other Japanese had been employed for the same reason since economy had to be practiced to bring the expenses of the Government within the budget. He said further that his Government had given a contract to an English concern for two naval vessels, that it had also given a contract to an Italian concern, and that it was buying aircraft from America and expected to place additional orders. The Premier asked me at the time to furnish him with the address of the leading airport in Virginia, since the new Minister to the United States, Phya Abhibal, would inquire of the American Government whether the Siamese Government could send three military officers to the school there for instruction in aviation; I subsequently gave him the address of Langley Field, Hampton, Virginia, and also furnished him the address of the Marine Base at Quantico, Virginia. The Premier in his interview referred also to the fact that he had sent officers to the Philippine Islands, the United States, England, and France. The general tenor of his remarks indicated that Siam, while following an independent policy, was in no way aspiring to or seeking to cultivate the friendship of Japan at the expense of other nations.

The letter of Prince Varnvaidya to me clearly shows that the Siamese Government was concerned over the press releases from Tokyo to the *New York Times*.

While it is true that Japan is increasing her volume of cheap goods shipped to Bangkok, this may be regarded as a strictly competitive commercial development. There are only two hundred Japanese residents in Siam; their number has not noticeably increased in recent years, their pursuits are mainly commercial, and they do not exert a significant influence through relations with government circles nor offer the same problems with regard to the pursuit of occupations not related to the Japanese import trade as exist in other countries in this part of the world. In contrast, the Chinese population of pure stock in Siam is generally estimated at one million, while the Siamo-Chinese who are half or more of Chinese blood are estimated at an additional million. These Chinese and Siamo-Chinese practically control the commerce of Siam in its internal structure, owning the retail stores and being engaged in trade and transportation throughout the country, besides supplying the capital, management, and labor for a large portion of the industrial enterprises in Bangkok; they also control a large portion of the import and export trade. Their position will no doubt represent an obstacle to the increase of Japanese influence in Siam.

In March 1935 when the constitutional government accepted the abdication of King Prajadhipok, the British and French Ministers both informed me that so long as law and order prevailed in Siam and the new regime maintained a stable government, the situation would be acceptable to their Governments.

I shall continue to follow the situation carefully, as it appears that the topic of a *rapprochement* between Siam and Japan will receive attention in the local press and the world press for some time to come, and I shall promptly report any developments that tend to bear out the establishment of a *rapprochement*.[55]

Respectfully, JAMES M. BAKER

793.94/7193 : Telegram

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

PEIPING, July 19, 1935— 2 p. m.
[Received July 19—9 : 22 a. m.]

368. The possibility increases that an agreement may be reached by North China leaders unfriendly to National Government to form a regime to direct the affairs of the five northern provinces. It seems

[55] The Chargé in Siam in his despatch No. 439, October 30, 1936, however, reported that "the recent trend in relations of Siam and Japan reveals a distinct lack of political leaning and a commercial policy without evidence of preference on the part of the Siamese Government toward Japan." (792.94/32)

probable that this regime will be under nominal control of National Government and at the same time "cooperative" with the Japanese. Japanese military continue to visit these provinces presumably in furtherance of such a plan. A responsible local Chinese official states confidentially that the Japanese military have definitely given up the idea of an independent North China in favor of the scheme outlined above. The advantages to the Japanese military of North China regime nominally under Nanking would be, (1) they would not be going contrary to the alleged opposition of Tokyo to the creation of an independent state, (2) the establishment of such a regime could further the plans of the military for economic exploitation of North China as successfully as could an independent regime, (3) the "peacefull penetration" of North China would still leave the way open for an extension of Japanese political and economic influence in Central South China either without resistance on the part of National Government or perhaps even with its assistance, and (4) foreign governments would have less basis for criticism.

2. It is too soon to predict who might become the chief Chinese figure in such a regime. There seems to be no important figure in the five northern provinces except possibly Shang Chen who would not lend himself to the scheme if he thought that his own interests would be adequately served by participation or if he were sufficiently threatened.

3. The press reports that chairmen of the five northern provinces will meet at Peiping in the near future for discussion the agenda of which is still unknown. However, I am reliably informed that Wang Keh-min will not call the conference unless there are good prospects of agreement being reached.

To Nanking and Tokyo by mail.

JOHNSON

793.94/7204 : Telegram

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

PEIPING, July 23, 1935—10 a. m.
[Received July 23—9 : 40 a. m.[56]]

373. Reasons for continued disrespect of Japanese military with regard to Chinese "sincerity" were explained by Major Takahashi to American press correspondent as follows: (1) Chinese anti-Japanese boycott persists especially in the Yangtze Valley region, in part because China insists that name of country of origin be placed on imported goods and in part because Chinese are afraid of Kuomintang

[56] Telegram in two sections.

activities against them in case they buy Japanese goods; (2) Japanese goods do not receive the same administrative treatment by Chinese Customs as do other foreign made goods; and (3) anti-Japanese education still exists in Chinese schools. Takahashi said that if verbal representations could change the Chinese attitude the Japanese military would be gratified but if not, then pressure would have to be exerted.

2. Japanese press also continues to report dissatisfaction of Japanese military. According to press statement of Japanese military headquarters at Tientsin various former anti-Japanese agitators of the Kuomintang are continuing their activities through the Chinese Chamber of Commerce and other organizations (this allegation has been categorically denied in a signed statement by an officer of the Chamber); the movements of Japanese military officers are being watched; and anti-Japanese education is still found in schools.

3. The reason for the meeting at Hsinking July 17, of important Japanese military officers of North China and elsewhere is unknown. Takahashi claims that economic development in North China was not discussed. Local observers are inclined to believe it had some connection with recent enforced resignation of General Masaki at Tokyo.

4. These continued references to the Kuomintang which has been eliminated from Hopei and which is weak elsewhere in North China indicates the Japanese are more or less attempting to bring about some compromise on the part of the Kuomintang in Central China in addition to understandings already arrived at as well as some understanding with Chiang Kai-shek. It is possible that increased Japanese activities in North China (where there seems to be considerable activity on the part of old Anfu clique officials) may be awaiting the outcome of pressure on the National Government and Chiang Kai-shek. I am reliably informed that Chiang's German advisers are leaving as their periods of engagement expire; that Chiang intends to stay at least one year in Szechuan having rented foreign mission houses; that he is having brought to Chengtu some heavy guns which could not be intended for the anti-communist campaign indicating that he is establishing himself in Chengtu for self-defense. (Reference Shanghai's 404, July 17, 1 p. m.)

5. Paralleling these developments are Japanese press reports that the Japanese wish to help Chiang in his campaign against Communists and "in any way possible" in regard to economic problems. The first step in such help would presumably be the appointment of Japanese advisers.

Repeated by mail to Nanking and Tokyo.

JOHNSON

793.94/7207 : Telegram

The Second Secretary of Legation in China (Atcheson) to the Secretary of State

NANKING, July 25, 1935—9 a. m.
[Received 10:50 a. m.[58]]

216. 1. I am informed by a Chinese official of Cabinet rank that Chiang Kai-shek has yielded to Japanese pressure and pleas of government leaders for a more definitive direction of affairs than is possible from Szechuan and that he now plans to come to Nanking August 6th. Suma recently reiterated the statement of other Japanese spokesmen that Chiang must shortly declare himself without equivocation in respect to Sino-Japanese issues "or it would be the worse for him" and if Chiang actually arrives it is expected that the probable future trend of Sino-Japanese developments in the Yangtze Valley and elsewhere in China will become more clearly delineated. It seems generally believed in Chinese official circles that whatever open stand Chiang may take, he will continue in this general policy of attempting to consolidate the west and of preparing to resist the Japanese by force if they attempt to extend their hegemony into the Yangtze Provinces. But the National Government itself is imbued with defeatism; the belief is prevalent that it is too late to fight and it is feared that if Chiang should order resistance the Japanese will destroy his military in this region and the present government personnel will be replaced by officials selected by whatever military man is subsequently permitted by the Japanese to be in control here. It is noteworthy that rumors persistently state that numbers of Chinese officials and politicians are making overtures to the Japanese looking to Japanese influence to secure them appointments if and when Japan moves to dominate the National Government.

2. One internal development now envisaged by several highly placed sources is that the failure of Wang Ching-wei to obviate Chiang's reported capitulations to Japanese wishes that he come to Nanking will mean the termination of Wang's political career in the present government whether or not Wang recovers from his illness.

3. Otherwise the situation here has not recently been distinguished by any clear-cut political developments. It has been my impression that government leaders have looked for a respite perhaps of some weeks' duration before any new crisis should arise either vis-à-vis Japan or in domestic politics. They appear to have been waiting, as apparently have also the Japanese, for Chiang to take a decisive open stand in respect to Sino-Japanese issues and there are indications that Chinese official circles have in a sense been coming to share

[58] Telegram in two sections.

the view of the Japanese spokesman mentioned above. They have appreciated Chiang's desire to dissociate himself from any openly controlling connection with Sino-Japanese problems but they have come to realize that Chiang must declare himself unequivocally if further major international difficulties are to be avoided or if he himself is to maintain his predominant position in Chinese affairs.

4. The foreign press in Shanghai has published reports which appear to have emanated from a Japanese daily there of a probable change in the mayoralty of Shanghai and a reallotment of the chairmanships of Anhwei, Chekiang, Hupeh and Fukien and I have been informed by a reliable official Chinese source that a reshuffling of these provincial posts was being considered at the suggestion or request of the Japanese. I have, however, been unable to confirm this latter statement; it may well have resulted from the recent meetings here and in Shanghai of the Provincial Chairmen of Fukien, Kiangsi, Chekiang and Hupeh military [*sic*]. I have seen no indication that Chinese Government circles entertain any immediate fear that prognosticated Japanese activities in the Yangtze Valley have as yet extensively commenced.

5. I am informed by an official source close to an important government leader that no new appointments to Wang's concurrent posts are likely for some time. Kung will continue to function as acting head of the Executive Yuan and the two Vice Ministers for Foreign Affairs will direct the Foreign Office. This source states that an invitation will be sent to Hu Han-min to join the Government and that Hu is expected to nominate Wang Chung-hui in his stead. It seems too early, however, for schemes of this nature to be accepted as plans which are probable of consummation, since prior developments in major international issues are likely to intervene and dictate an entirely different course of action.

6. Both sections repeated to Department and Peiping. To Tokyo by mail.

ATCHESON

893.01 Outer Mongolia/17 : Telegram

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

PEIPING, July 25, 1935—10 p. m.
[Received July 25—5:05 p. m.]

376. Legation's telegram No. 348, July 10, 4 p. m. Following replies to the July 4 representations of the "Manchukuo" government and the Kwantung Army were made by the Outer Mongolian Government on July 13, according to press reports, and those replies are said to have been essentially the same as made originally on July 9

by Sambu, the Outer Mongolian representative. Mongol refusal of the demarcation made was based, it is reported on the general ground that compliance would result in an infringement of Outer Mongolian sovereignty. It is reported that the "Manchukuo" government and the Kwantung Army on July 17, handed Sambu a new joint note proposing that there should be bilateral exchange of authorized representatives with the right of permanent residence in Outer Mongolia and "Manchukuo" respectively instead of merely the unilateral despatch of "Manchukuo" nurses and Kwantung Army representative to Outer Mongolia as first proposed. Japanese news despatches from Hsinking threaten that there will be "positive measures" taken by the Kwantung Army to settle the incident unless the Outer Mongolian authorities signify their compliance. The text of neither the Mongol note of July 13, nor the joint note of July 17 had yet been obtained by the Legation.

Repeated by mail to Tokyo, Nanking and Harbin.

JOHNSON

893.515/681 : Telegram

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

Moscow, July 26, 1935—10 p. m.
[Received July 26—4 : 52 a. m.]

308. Dr. Yen, Chinese Ambassador, who returned to Moscow last night, called on me today and said that he had just received an urgent telegram from T. V. Soong saying that, although the American Government had promised to appoint a financial expert to make the same sort of visit to China that Leith-Ross is about to make, no American had been appointed.[59] Yen said that Soong had telegraphed saying that it was urgent that an American should be appointed at once and should reach China at least as soon as Leith-Ross.

I asked Yen what I had to do with this matter about which I knew nothing. He replied that Soong had asked him to appeal to me personally to try to expedite the appointment.

I asked Yen if he knew what Leith-Ross intended to propose. He replied that the British Government had intimated to the Chinese Government that if the Chinese Government would tie Chinese currency to the pound the British Government would see to it that the Chinese Government should receive a 10,000,000-pound credit or loan in Great Britain.

Yen then said that he had a piece of news of the utmost importance which he could communicate to me in strictest confidence. He went

[59] For correspondence on this subject, see p. 526 ff.

on to say that within the past few days the Japanese Government had presented four demands to the Chinese Government: (1st) recognition of "Manchukuo"; (2d) military alliance; (3d) economic alliance (Yen said he thought this meant privileges of customs union with limitations); (4th) cultural collaboration.

I asked Yen if he thought General Chiang Kai-shek could or would accept these demands. Yen replied that he believed acceptance was impossible and added that he had telegraphed General Chiang Kai-shek saying that it was better for China to fight even though fighting meant suicide rather than accept more Japanese demands.

BULLITT

893.515/681 : Telegram

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

WASHINGTON, July 29, 1935—2 p. m.

170. Your 308, July 26, 10 p. m. The American Government has not "promised to appoint a financial expert." The British Government informed us of the appointment of Leith-Ross and asked that the American Government likewise appoint a financial expert to be attached to the American diplomatic mission in China. The Department replied that the American Government would give consideration to the matter. As yet no decision has been reached.

Please communicate the substance of the foregoing orally to Yen.

PHILLIPS

793.94/7225 : Telegram

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

TOKYO, July 31, 1935—6 p. m.
[Received July 31—9:40 a. m.]

161. Department's 115, July 29, 2 p. m.[60] Nothing has been published in the newspapers nor are rumors current in Tokyo to the effect that fresh demands have been presented by the Japanese Government to China although two Japanese newspapers this morning state that the Japanese Government is considering a "second phase" policy toward China which will include a request for the recognition of "Manchukuo." The demands referred to in the Department's telegram however correspond in some degree with the instructions which it was reported were given to Ariyoshi on his return to China in June last and

[60] This telegram quoted the last two paragraphs of telegram No. 308, July 26, 10 p. m., from the Ambassador in the Soviet Union, p. 322.

which, according to the *Tokyo Nichi Nichi*, included the following points as reported in the Embassy's despatch No. 1406, dated July 22, 1935.[61]

(1) China should suppress anti-Japanese activities.
(2) China should cooperate with Japan on tariff arrangements, adjustment of loans and establishment of air lines.
(3) Japan is prepared to give unstinting aid to China if China will abandon dependence on third powers and strive for amity with Japan.
(4) Japan is willing to cooperate with other powers in extending nonpolitical financial aid to China.
(5) China is urged to settle the North China affair and is also urged to endeavor to settle permanently through diplomatic channels relations with Japan and "Manchukuo."

It was not indicated however that Ariyoshi was to present desiderata in the form of demands. NEVILLE

CHAPTER IV: AUGUST 1–OCTOBER 31, 1935

Denial of extraterritorial rights to certain foreign nationals by Japanese authorities in "Manchoukuo"; attempt by Japanese military to create Mongol buffer state; warnings by Japanese military of lack of progress in program of Chinese-Japanese "cooperation" and Japanese pressure for "autonomy" in North China

393.4121(M)/1 : Telegram

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

PEIPING, August 1, 1935—3 p. m.
[Received August 1—8:30 a. m.]

390. Following from American Consul General at Mukden:

"July 31, 2 p. m. I am informed by the British Consul General that he has been unable to obtain any satisfaction from the Japanese authorities regarding his protest against the arrest and detention for 3 days by Japanese police at Hsinking 4 weeks ago of a British subject named . . . who had been involved in a café brawl. He has been also advised by his Embassy at Tokyo that yesterday Tokyo Foreign Office spokesman informed foreign newspaper correspondents that nationals in 'Manchukuo' of non-recognizing powers could not expect to enjoy extraterritoriality."

Ballantine continues to the effect that he concurs in the views of his British colleague [that if?] the "Manchukuo" government continues to deny extraterritorial rights in concrete cases it will become almost impossible for the consular representatives to afford effective protection to their nationals and that such protection is difficult even under existing abnormal conditions because of the studied policy of excluding foreign business interests and the antiforeign feeling prevalent among

[61] Not printed.

the petty civil and military officials of Japanese nationality over whom Central Government exercises but little control.

Ballantine is being directed to submit full report by mail.[62]

JOHNSON

793.94/7228 : Telegram

The Second Secretary of Legation in China (Atcheson) to the Secretary of State

NANKING, August 2, 1935—9 a. m.
[Received 9 : 17 a. m.]

221. Legation's unnumbered telegram July 30.[63]

1. Kung, who has been named Acting President of Executive Yuan in Wang's absence, yesterday evening gave me information somewhat similar to, but not identic, with that furnished Ambassador Bullitt by Yen in Moscow on July 26.[64] Kung said no new "demands" had recently been presented by Japanese diplomatic representatives; that practically all the talking for Japan was now done by Japanese Military Attachés; that recently these officers had been pointing out to Chinese Government officials that if friendly relations were desired with Japan certain steps must be undertaken including recognition of "Manchukuo", a military alliance, economic cooperation and subscription to the Pan-Asia doctrine. Kung said that Japan's aims were set forth in the "Tanaka memorial" [65] and that Japan was proceeding to accomplish these aims step by step. He made no mention of any possibility of resistance, but intimated that many problems awaited decision by Chiang Kai-shek and said that Chiang might come to Nanking in the near future.

2. To the Department and Peiping. To Tokyo and Moscow by mail.

ATCHESON

793.94/7229 : Telegram

The Second Secretary of Legation in China (Atcheson) to the Secretary of State

NANKING, August 2, 1935—1 p. m.
[Received August 2—11 : 35 a. m.]

223. My 221, August 2, 9 a. m.

1. In a general conversation this morning the Acting Minister for Foreign Affairs stated to me that the Sino-Japanese situation was

---

[62] Not printed.
[63] Not found in Department files.
[64] See telegram No. 308, July 26, 10 p. m., from the Ambassador in the Soviet Union, p. 322.
[65] Allegedly presented to the Japanese Emperor in 1927 by the Prime Minister, General Baron Gi-ichi Tanaka.

superficially calm now; there had been improvement in the feeling between China and Japan; anticipated Japanese activities in the Yangtze Valley; and while Japanese officials in various places continued to talk about Sino-Japanese relations the Japanese had not of late, informally or otherwise, put forth any new proposals or presented any demands to the Foreign Office. However, he said, Japan's intentions were well known; this was a very dark period for China and no one could tell what would happen next or what demands the Japanese might present at any time.

2. He said he had heard a great deal of criticism from foreigners that his Government had not given publicity to development in North China or generally in respect to Sino-Japanese issues; but no good purpose would have been served by publicity because the Chinese Government knew that no nation would rush in to China's rescue. The Chinese Government was therefore keeping very quiet in respect to these matters; it was attempting to avoid irritating the Japanese and was willing to discuss Sino-Japanese problems with them.

3. He went on to say that there was of course a limit to the extent China could go in meeting Japanese wishes. It was his personal opinion that the Chinese Government must proceed on two fundamental principles. The first was that China, having "temporarily lost control" over Manchuria, could not give up any more territory without resistance; if, for example, the Japanese should ask China to relinquish control over the territory north of the Yellow River, China must fight. The second was that there was no use discussing with the Japanese proposals involving loss of attributes of sovereignty; China could not without resisting by force surrender sovereign rights of any kind.

4. Chiang Kai-shek, he said, might come to Nanking soon.

5. To the Department and Peiping. To Tokyo and Moscow by mail.

ATCHESON

893.1028/1865

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

No. 3728 PEIPING, August 2, 1935.
[Received August 24.]

SIR: I have the honor to refer to the Legation's despatch No. 3667 of July 3, 1935, in regard to the Shanghai Defense Scheme and to transmit herewith a copy of the Shanghai Consul General's despatch to the Legation No. 8773 of July 25, 1935, together with its enclosures.[66]

From the Consul General's despatch the Department will note that no progress has been made toward reaching an agreement in regard

[66] Despatch No. 8773 and enclosures not printed.

to the amendment of Part II, Paragraph 4,[67] of the (June 1934 revision of[68]) Defense Scheme, and that Mr. Cunningham inquires whether the letter of Admiral Upham to the Commander of the Japanese Naval Landing Party under date of March 30, 1935, (see enclosure No. 1[69] to Legation's despatch No. 3667, July 3, 1935) does not adequately cover the point raised by the Department in its telegram to the Legation No. 366, November 20, 1934, 7 p. m.[70] In the event that Admiral Upham's letter is not considered as meeting the requirements, Mr. Cunningham suggests that, in a final effort to obtain the desired revision embodied in the Defense Scheme, he might convene a conference composed of the Japanese Consul General, the Commander of the Japanese Naval Landing Party, and the Commander of the Fourth United States Marine Corps for discussion of the matter.

The Department will recall that in its telegram No. 557, December 6, 1934, 11 a. m.,[71] the Legation quoted the Commander of the United States Marine Corps at Shanghai to the effect that he was quite sure that the intention of the Defense Committee was that the protection outside of the perimeter of foreign life and property should be the responsibility of the Garrison Commander whose nationals were concerned; that as a practical measure the protection of such foreign lives and property could best be handled by the authorities of the nation concerned without calling on the Defense Committee; that even under the original wording of the paragraph in question the Defense Committee would have, in any particular case, left the matter largely, if not entirely, to the Garrison Commander of the forces whose nationals needed protection; and that the revised wording to which the Department took exception merely granted that authority to him.

In view of this fact, and in view of the recent Japanese effort to obtain a revision of the Defense Scheme which would serve the purpose of authorizing a condition similar to that which existed in 1932 in the Hongkew district, (see Legation's No. 3667, July 3, 1935) the Legation is inclined to the opinion that no useful purpose would be served by proceeding further toward obtaining the revision of Part II, Paragraph 4, of the Defense Scheme desired by the Department; and it would suggest, therefore, that it be authorized to inform Mr. Cunningham that Admiral Upham's letter to the Commander of the Japanese Naval Landing Party of March 30, 1935, may be considered as covering the questions raised by the Department.

Respectfully yours, NELSON TRUSLER JOHNSON

---

[67] Department notation: "Was parag[raph] 5 in orig[inal] defense scheme of Dec. 1931."
[68] Department insertion.
[69] *Ante*, p. 290.
[70] *Foreign Relations*, 1934, vol. III, p. 308.
[71] *Ibid.*, p. 330.

893.51/6085½

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

[WASHINGTON,] August 8, 1935.

Press despatches from London and from Tokyo today indicate that moves are being made by and between Great Britain and Japan with regard, on the one hand, to naval questions and, on the other hand, Far Eastern relations.

Although the press reports do not give a clear picture, the heavy smoke thus rising simultaneously from London and from Tokyo indicate that there is fire in one or both of those capitals. The possibilities thus indicated should be considered in the light of and against the background of attitudes manifested and events which occurred during and immediately after the naval conversations held in London at the end of last year.

The present stories relate to a "proposed Anglo-Japanese conference to be held in Tokyo this autumn" "to seek a solution of naval, economic and other issues." A Tokyo report states that the British Government has proposed such a conference. A London report states that this has surprised British authorities, but that the Tokyo visit of Ambassador Matsudaira has given "the signal for the opening of a campaign in Britain for closer collaboration" between Japan and Great Britain "especially in view of the determination of the United States forcefully to maintain the present 5–5–3 naval ratio." Another London report by the same Service states that "negotiations are under way for an Anglo-Japanese conference in the fall to discuss all outstanding problems between Britain and Japan, it was stated in reliable quarters today"; and says that it was officially admitted that "the British had been in touch with the Japanese Government on several subjects recently, particularly naval and economic;" that Leith-Ross will sail for the Orient on Saturday; that it is taken for granted that he will confer in Tokyo; and that it is felt in authoritative circles that his visit "would be the prelude to a conference in the fall dealing at least with Anglo-Japanese problems in the Far East." A Tokyo report states that "Matsudaira was approached with a proposal for an Anglo-Japanese discussion of pending fundamental trade issues and Chinese questions" and that Hirota "will accept the proposal"; and that "the British Ambassadors to China and Japan and Sir Frederick Leith-Ross, . . .[72] will represent their country"; and that Leith-Ross "will not visit Washington, as was reported some weeks ago."

[72] Omission indicated in the original memorandum.

Comment.

Whatever there may be of truth, of mere conjecture or of falsehood in the reports referred to above, we are confronted with several facts:

The British Government has been talking about the holding of a naval conference this fall. From Japan there have come conflicting reports some to the effect that Japan desires that a conference be so held, some to the effect that Japan does not so desire. The British Government is sending one of its foremost financial experts to China as a "financial attaché" to the British Embassy there; it has asked (and the Chinese Government has likewise asked) that other governments do likewise; the French Government has indicated its willingness to follow suit provided the American Government does so; and the American Government has thus far followed an unresponsive course, neither saying "yes" nor saying "no".

The Chinese Government has solicited both of the British Government and of the American Government (and of other governments) aid in connection with its present financial difficulties and perplexities. The American Government has replied that it wishes to be helpful and would be glad to cooperate and would like to discuss with the Chinese Government its difficulties and perplexities. The British Government suggested that the various governments interested consider, collectively, ways and means for being of financial assistance to China; and the American Government said that it would be glad to consider and to discuss possibilities. Yet, the British Government having thereafter proposed that financial experts of the various governments concerned be attached to the missions, respectively, in China of the governments concerned, the American Government has not only been unresponsive but has indicated that it is unwilling even to have any of its officials talk with the financial expert whom the British Government is sending to China for the purpose of looking the situation over.

If the British Government and/or the Chinese Government have come to or should come to the conclusion that the American Government merely talks about being "helpful" and about "cooperation" but has no desire and no intention of being helpful or cooperating, we could scarcely accuse them of mental astigmatism. For their erroneous conclusion, if it be such, we could blame only ourselves.

If the British Government were to decide, as it has during the past year shown some inclination to do, that it cannot formulate and regulate its policy and course of action with regard to its Far Eastern interests on the basis of an unassured, an uncertain, and a not-to-be-relied-upon willingness to cooperate on the part of the United States, we could not with warrant complain of its having done so.

If the British Government—in the absence of any indication of any willingness on the part of the American Government to take con-

structive steps toward dealing with critical developments in the Far East, and in the presence of the pursuit by the American Government of a course of action (our silver purchasing) which, no matter what the facts, is in many quarters believed to have complicated and adversely prejudiced the situation in China and throughout the Far East—were to decide that it must cooperate with a power which is willing to cooperate (in some respects at least), namely, Japan; and if, in consequence, Great Britain and Japan were to make agreements (formal or informal) which are not to our liking and which prove to be to our disadvantage, we would have little if any warrant for complaint.

There is a possibility that just such developments are impending. If this in any way disturbs us, and if we feel moved to do anything toward preventing such developments, the present is the moment at which to act.

Whatever the merits or lack of merit, in regard to the financial situation in China, of the proposal to send "financial attachés" to the missions in China, there is merit, if we desire to cooperate with Great Britain, in the idea of taking a step similar to that which they are taking and which they have asked this and other governments to take, and, if we desire to help China, in the idea of making at least a gesture, which they have requested, in that direction. If we do not do this, both the British and the Chinese can say that we have refused to cooperate in an effort to be helpful; the British can turn to the Japanese and can discuss matters with them without our being party to the discussions or having knowledge, except as they may choose to inform us, of what takes place in the discussions; and the British and the Japanese can conclude agreements without contribution on our part either constructively or restrainingly.

Should not this Department and the President give very serious thought to this situation and come to some definite conclusion at an early date with regard to the course which this Government shall pursue in regard to it?

S[TANLEY] K. H[ORNBECK]

894c.77/15

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

[Extracts]

No. 1424 TOKYO, August 8, 1935.
[Received August 24.]

SIR: I have the honor to report that for some time past there have been vague rumors of differences of opinion between the Kwantung

Army and the management of the South Manchuria Railway, which culminated in the resignation on August 2, 1935, of the President of the Railway, Count Hirotaro Hayashi, who had held the post for three years. According to Rengo, Count Hayashi was not in agreement with the Kwantung Army nor with some members of the staff of the Railway, including the Vice-President, Mr. Hatta. . . .

On the day of the acceptance of Count Hayashi's resignation, Mr. Yosuke Matsuoka was appointed President of the South Manchuria Railway by the Cabinet, with Imperial sanction. Mr. Matsuoka, who is now fifty-five years of age, was educated in the United States, at Oregon Law College. . . .

Mr. Matsuoka is a man of wide experience, considerable political ability, great energy and great force of character. He also possesses to some extent that peculiar idealistic vision of which General Araki was the great proponent, but, unlike General Araki, Mr. Matsuoka keeps his feet on the ground as well as his head in the clouds. Because of his force of character, his intense patriotism, his belief in the destiny of the Japanese people, and his idealistic vision, Mr. Matsuoka is popular with the Japanese Army and with the numerous patriotic societies.

Although changes in the head personnel of the South Manchuria Railway have taken place frequently in the past and have aroused little comment, it is generally felt that the appointment of Mr. Matsuoka to the position of President at this particular moment has some special significance. The principal purpose of this despatch, therefore, is to point out the significance of the appointment, as seen by the Embassy.

The obvious purpose of the appointment of Mr. Matsuoka to the position of President of the South Manchuria Railway was to place in the position someone who would not be in conflict with the authorities of the Kwantung Army, as Count Hayashi had been, and who would cooperate with the Army in its projects. The question arises, however, as to the especial necessity which called for the change at this particular time.

The *Osaka Mainichi*, English Edition, of August 7, 1935, lists the unsettled problems faced by the new head of the South Manchuria Railway as follows:

1. Reorganization of the business system of the Railway. . . .
2. Reorganization of railway enterprises in Manchuria. . . .
3. Reorganization of personnel. . . .
4. Economic activities of the South Manchuria Railway in China. This problem involves the making of the necessary investigations, decisions as to enterprises to be undertaken, and the raising of the necessary capital.

Although no official statement has been made on the subject, it is the belief of many observers of the situation, including the foreign newspaper correspondents, that the fourth problem given above, namely, the economic exploitation of North China by the Japanese, is the basic factor causing the appointment of Mr. Matsuoka as President of the Railway at this time.

Since the recent North China incident, as a result of which the anti-Japanese elements in North China were largely eliminated and the Japanese military obtained a measure of political control over the region, reports have appeared from time to time in the newspapers in regard to the projected Japanese exploitation of the natural resources and means of communication in North China. Reports have also appeared to the effect that the Kwantung Army intends to use the South Manchuria Railway as the spear-head in this economic penetration of China. Count Hayashi was a man of moderate views, a good executive of the Railway, but hardly the man to carry out the "positive" policies of the Kwantung Army. Hence the appointment of Mr. Matsuoka, who is a man vastly better suited to the work which the Kwantung Army apparently is planning than is Count Hayashi.

This view of the basic cause of the change in presidents of the Railway is borne out by various hints in the newspapers. The *Tokyo Nichi-Nichi* on August 3 stated that, under Mr. Matsuoka, the South Manchuria Railway and the Army will work together in trying to formulate a sound plan for investment in North China, "taking into consideration the economic interests of Great Britain, the United States and the Soviet Union in that region". On August 2, General Minami, in an interview given newspaper men in Hsinking, stated, in reply to a question as to his opinions in regard to the projected move to secure Sino-Japanese economic *rapprochement* through the South Manchuria Railway, that he believed that not only North China but all China could be included in such a move. . . . Mr. Matsuoka himself, in a statement which he made to the members of his Society for the Dissolution of the Political Parties on August 4, implied that his principal task as President of the South Manchuria Railway was the penetration of North China. His statement, which also gives some idea of the visionary character of the man, reads in part as follows (*Japan Advertiser* translation):

"Looking over the northeastern area of the Asiatic mainland, we see that Manchuria and Mongolia have already passed through the first stage, that of reshaping, and are entering on the second stage, that of internal perfection. Because of the activities of the Soviet Union and the situation prevailing in China, Japan is going to start operations in North China. Most of the people of Japan do not yet quite understand the great importance of these future operations, and their lack of understanding, I believe, will beyond doubt bring about a really

serious crisis in the nation. Regardless of how serious the crisis may become, Japan cannot halt its North China operations. The arrow has already left the bow. The progress of these operations will decide the destiny of the Yamato race, its rise or fall in the world situation.

"To carry through these operations, domestic renovation is inevitable. It is for this reason that I am championing the cause of the Showa Restoration. I am going to Manchukuo and shall take leave of you for a while. The true spirit of the movement for dissolution of the political parties is in no sense connected with politics. It is a spiritual movement."

The appointment of Mr. Matsuoka to the position of President of the South Manchuria Railway was received with approval in nearly all circles in Japan and Manchuria. . . .

. . . . . .

It is reported, however, that the financiers of Japan are not greatly pleased with Mr. Matsuoka's appointment. It appears that they are afraid that Mr. Matsuoka, with his visionary ideas, backed by the Kwantung Army, with equally or perhaps more visionary ideas, may plunge the finances of "Manchukuo" and the South Manchuria Railway into such difficulties that the Japanese backers of enterprises in Manchuria will be faced with ruin. . . . The Japanese financiers are afraid of this situation, and fear that Mr. Matsuoka, with his Army affiliations, may take some action which will have a disastrous effect upon Japanese finances. The Army, moreover, at first opposed the appearance of "big business" on the Manchurian scene, although later it found that it was necessary to make some concessions to the financiers in order to obtain capital for Japanese enterprises in Manchuria. The Japanese financiers resent this attitude of the Army, and likewise resent the appointment of any man who is sympathetic with Army views as President of the largest Japanese corporation on the Asiatic mainland.

Mr. Matsuoka, in his press interviews, did not comment upon the South Manchuria Railway "mission" in North China. He expressed the opinion that the Railway should now devote itself entirely to economic matters, paying no attention to political matters; that the first consideration should be the increasing of the economic power of the Manchurian farmers, who comprise 90 per cent of the population, as this would increase the earning power of the Railway; that forestry, mining and cotton-raising should be encouraged in Manchuria; and that it would be a mistake to encourage manufacturing industries in Manchuria, as such would waste Japanese capital, exert pressure upon Japanese industries, and bring little benefit to the farmers of Manchuria.

Respectfully yours, EDWIN L. NEVILLE

893.01 Outer Mongolia/19 : Telegram

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

PEIPING, August 10, 1935—3 p. m.
[Received August 10—9:28 a. m.]

411. Legation's 376, July 25, 10 a. m. [*p. m.*] The Outer Mongolian Government replied July 29 to the "Manchukuo"-Kwantung Army note of July 17, proposing, according to newspaper reports, that resident representatives be exchanged between Outer Mongolia and "Manchukuo" on the condition that their authority would be limited to the settlement of border disputes and that they would reside at points near the border. The Hsinking Foreign Office in a statement of August 6, it is reported, stated that certain points in the Mongolian reply were "vague and unreasonable"; that new proposals were being made by "Manchukuo" in a note dated August 5, to the effect that the places for residence should be clearly designated indicating resident representatives should also be stationed in the capitals of the two countries to deal with such matters as cannot be settled locally; and that "the 'Manchukuo' [government?], however, concedes to the Outer Mongolian proposal to limit the authority of the resident representatives".

Ohashi, "Manchukuo" Vice Minister for Foreign Affairs, in a recent private interview with an American newspaperman stated that the Kwantung Army was not prepared to make a serious issue of the matter but "merely wanted to see how far it could go," however, the Army was very desirous of having representatives in Urga for purposes of observation.

By mail to Tokyo, Nanking, Harbin.

JOHNSON

893.01 Inner Mongolia/45 : Telegram

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

PEIPING, August 13, 1935—3 p. m.
[Received August 13—9:47 a. m.]

415. Prince Teh's Peiping representative has informed a reliable source that three important Japanese Army officers including Chief of Staff of Kwantung Army called on Prince Teh some weeks ago and told him that if he would declare his independence the Japanese would (1) supply him with arms and money; (2) give him Hsingan Province; (3) train one Mongol division and (4) supply him with additional troops to fight Outer Mongolia. (This appears to be a program for the unification of all Mongols under a Mongol subservient

to Japanese direction). The informant stated that Teh told the Japanese he would like to be treated as the Russians treat the Outer Mongols, that is, money and arms are supplied without political interference. Teh has temporarily put off the Japanese by saying that he wishes first to consolidate under him the Mongols of Inner Mongolia in China who are at present unfriendly to him. Teh feels that he can obtain no help from China as the National Government has never treated the Mongols sincerely and as it cannot adequately care for the Peiping-Tientsin area. Meanwhile according to this source the Japanese have informed Fu Tso-yi and Yen Hsi-shan of their intention and although they object they can do nothing.

2. The present situation in North China appears to render probable the loss by China of Inner Mongolia and the increasing ascendancy of Japan in that area. It seems inadvisable that if and when North China breaks from Nanking, if not before, the Mongols will declare their independence as they can expect no help from China and as they will be in a better position to bargain with the Japanese to meet their present wishes instead of waiting to be conquered by a force which they cannot possibly resist with success.

3. Definition of the extent of North China in some recent Japanese press reports fail include mention of Chahar which indicates a changing attitude of the Japanese with respect to that area.

By mail to Toyko and Nanking in paraphrase.

JOHNSON

893.00/13185 : Telegram

The Second Secretary of Legation in China (Atcheson) to the Secretary of State

NANKING, August 20, 1935—2 p. m.
[Received August 21—9:35 a. m.[73]]

247. My 246, August 20, 10 a. m.[74]

1. Wang Ching-wei proceeded from Tsingtau to Shanghai yesterday. Sun Fo and the Vice Minister of Railways, Tseng Chung-ming, who has been in charge of the Ministry during the Minister's long absence, have returned to Nanking. T. V. Soong came to Nanking this morning with Kung. Chu Chia-hua, Minister of Communications, who is reliably reported to have reconsidered his resignation, is again in Nanking and Chang Chun has returned here from Tsingtau. Madame Chiang Kai-shek came here with the Generalissimo.

---

[73] Telegram in three sections.
[74] Not printed.

2. The Chinese Central News agency at Nanking today reports an interview here with Chang Chun August 19th in which Chang allegedly stated that "Wang has consented to withdraw his resignation" [75] and that Wang will return to the capital "shortly". In the same report the agency quotes Sun Fo as saying that Wang had not yet taken a final stand with respect to his resignation but feels, in view of the urgent requests of the Government and the Party, that Wang's resignation would eventually be withdrawn. The same agency also reports an interview with Wang on August 19th following his arrival at Shanghai in which Wang is said to have reiterated "his firm desire to be relieved" from the posts of President of the Executive Yuan and Acting Minister for Foreign Affairs, but to have signified his willingness to come on to Nanking and continue his duties in the Central Party headquarters as soon as his resignations are accepted.

3. I am confidentially informed by a ranking official of the Foreign Office that his Ministry has not received any word from Wang indicating that the alleged statements of Chang Chun above mentioned are true or that Wang is reconsidering his expressed determination to retire from the Government. The official stated that in any case Wang would definitely not return to the Foreign Office.

4. He stated confidentially that there was a possibility now that China's policy toward Japan might be stiffened and that certainly there would be now a clarification of policy. He said that Chiang Kai-shek would not enter into any personal discussions with Japanese representatives and that if the Japanese should attempt to approach him they would be referred to regular diplomatic channels. He said that Chiang's policy, which had also been the policy of Wang, was to avoid an impasse with the Japanese for the time being and meanwhile to prepare for eventualities about 3 years hence. The Japanese wanted a "show down" but he did not think they would achieve their wishes at the present juncture.

5. He went on to say "privately" that the Chinese Government was very disappointed in the failure of the United States and Great Britain to assist China in her difficulties with the Japanese when China was "at the crossroads". He said that the Chinese Government was glad, however, that the United States Government had not made any public declaration against Japan or formal protest to the Japanese Government over the actions of the Japanese military in the North because a purely diplomatic *démarche*, unless supported by force of arms, would have been of more harm than help to China. China he stated knew positively that she could expect no real assistance from the

---

[75] In telegram No. 230, August 10, 9 a. m., Mr. Atcheson reported that Wang Ching-wei had resigned from his concurrent posts of President of the Executive Yuan and Acting Minister for Foreign Affairs (893.00/13172).

United States or any of the powers and only two roads seemed open: a combination with Japan which would mean Japanese domination of China and opposition to West or an alignment with Soviet Russia against the common enemy if such alignment could be attained.

6. To the Department and the Legation. To Tokyo by mail.

ATCHESON

893.00/13187 : Telegram

The Second Secretary of Legation in China (Atcheson) to the Secretary of State

NANKING, August 21, 1935—8 a. m.
[Received 2:35 p. m.]

249. My 247, August 20, 2 p. m.

1. Wang Ching-wei arrived in Nanking at 7 this morning to meet with Chiang Kai-shek. It is understood that Wang originally desired the meeting to be at Shanghai or Hangchow out of considerations of "face" but acceded to Chiang's urgent request that he come here without delay. Other important Government officials who are reported to have returned to Nanking include Ho Ying-chin; Chiang Tso-pin;[76] the Presidents of the Judicial and Central [*Control?*] Yuans; Chu Min-yi, resigned Secretary General of the Executive Yuan; Tang Yu-jen, Administrative Vice Minister for Foreign Affairs and Huang Fu. Wu Teh-chen, Mayor of Shanghai, is said to be coming here today. It is reported that the Minister of the Navy has submitted his resignation and that the Executive Yuan has rejected it.

2. Rumors that Chang Chun may be sent to Japan on a special mission in connection with Sino-Japanese affairs (see Hankow's 50 [*39*], August 19, 1 p. m.[77]) are believed to have arisen out of a plan conceived several weeks ago whereby Chang would proceed to Tokyo to put frank questions to Japanese Government leaders concerning Japanese aims and plans in China and to endeavor to obtain categorical answers. He sent his family to Japan earlier in the summer but his own journey thither was postponed and the plan may now have been abandoned. Authoritative information concerning it is lacking.

3. The situation vis-à-vis the southwest faction remains obscure. A spirit of optimism concerning the relations between Nanking and Canton now obtains here in Chinese official circles but I am reliably informed that Huang's mission to Kwangtung and Kwangsi has so far not had any concrete results in respect to the effectuation of an actual *rapprochement*. The press reports that Hu Han-min will return to China early in September and that Wang Chung-hui will

[76] Chinese Ambassador in Japan.
[77] Not printed.

also return shortly. Li Shao-sen, a member of the Southwest Political Council and a close associate of Hu was recently named Vice Minister of Personnel in the Nanking Government and I am now informed that Li has had published in the Shanghai vernacular press at advertising rates a spacious [*specious?*] announcement that this appointment was made without his being consulted, the publication of this announcement presumably being to avoid accusations by his colleagues in Canton that he has "gone over" to the Central Government.

4. To the Legation and Department, to Tokyo by mail.

ATCHESON

893.00/13190 : Telegram

The Second Secretary of Legation in China (Atcheson) to the Secretary of State

NANKING, August 22, 1935—2 p. m.
[Received 3 : 50 p. m.]

252. My 251, August 21, 12 p. m.[78]

1. I am informed by the Foreign Office that Wang Ching-wei has withdrawn both resignations and will continue in office as Acting Minister for Foreign Affairs as well as President of the Executive Yuan, although his health may prevent him from a full resumption of duties for some time. His decision followed a further conference with Chiang Kai-shek and formal rejection of his resignation by the Standing Committee of the Central Executive Committee this morning. This action of Wang's would seem to indicate that both his foreign and his domestic policies have been vindicated by Chiang Kai-shek and hence by the Government and that little if any change in government policies with respect to international relations or to internal political problems is to be anticipated in the near future. The other Ministers, whose resignations have all been formally rejected by the Executive Yuan, are expected to remain in office at present but authoritative information on this point is lacking.

2. From other sources which have been usually found [reliable?] I hear that Chiang Kai-shek plans to return to Chengtu by plane tomorrow. His prospective departure so soon after the withdrawal of Wang's resignation is taken as an indication that the crisis in the Government has passed and that there will probably not occur any further internal political developments of importance until the sixth plenary session of the Central Executive Committee which is to open September 20th. It is of possible interest in this connection that in

[78] Not printed.

predicting Wang's continuance in office as Yuan President under date of August 21 the Central News Agency at Nanking, which has close official associations, stated that current reports of the early return to China of Hu Han-min "are discredited in official circles here".

3. To Tokyo by mail.

ATCHESON

893.20/553

Memorandum by Mr. Raymond C. Mackay, of the Division of Far Eastern Affairs, of a Conversation With Mr. L. R. Holbrook

[WASHINGTON,] August 24, 1935.

Mr. Holbrook stated that he and most of his American associates at the Hangchow Flying School recently returned from China; that only one officer and two mechanics of the American personnel remained at the school; that he had accepted a new two-year contract with the Chinese Government in the capacity of a technical adviser to the Central Trust; that the Central Trust is the recently created purchasing department of the Central Government of China, which trust, although for the present confining its activities to the field of aviation, will, it is expected, ultimately effect purchases of all supplies for the Chinese Government. Mr. Holbrook stated that his present contract resulted from occasional association with the Soong family and rather intimate association with Dr. H. H. Kung; that he is now making a study of the American market for such aviation supplies as China may require; that he will eventually offer recommendations to the Central Trust but will not make purchases of any kind.

Mr. Holbrook also stated that he had been instructed to endeavor to obtain for the Hangchow Flying School the services of five American flying officers to replace other American officers whose contracts, like his own, recently had terminated; that the new officers will be employed only as instructors; that they will be civilians; and that they will not be military officers of the United States Government.

On taking leave, Mr. Holbrook made a statement to the effect that, as the son of an American Army officer (Major General Holbrook), he is first, last and always an American citizen and that he wished to make entirely clear the fact that he is not in the United States in an attempt to obtain for the Chinese Government aviation supplies or other equipment the free export of which to other governments is restricted in any way by the War Department or by other departments of the American Government.

893.01 Manchuria/1279 : Telegram

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

PEIPING, August 26, 1935—3 p. m.
[Received August 26—8 : 15 a. m.]

437. The Consul General at Harbin reports that it is understood that an invitation will be issued by the "Manchukuo" war minister to Consuls at Harbin to attend a naval review which is to be held early in September and which is to be attended by Pu Yi. Adams understands that an acceptance by him of such an invitation would entail a reply to the war minister and his presence in a section reserved for consular and other officials. He states that the Russian Consul General has said that he was prepared to accept without reference of the matter to his Government because it did not involve anything more than viewing the naval display. Adams' inclination is to accept the invitation of the war minister without use of his title as Consul General.

2. The British Embassy informs me that it has been instructed by its Foreign Office to refuse the invitation in case consular representatives of other nations also refused. The British Embassy has informally asked what our attitude in the matter is.

3. I concur in Adams' expressed view but desire the Department's instructions.

JOHNSON

793.94/7251 : Telegram

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

MOSCOW, August 26, 1935—4 p. m.
[Received August 26—12 : 15 p. m.]

389. Doctor Yen, Chinese Ambassador, stated to me yesterday that his latest information from Nanking indicated that the Chinese Government felt compelled to accept the Japanese demand for "full economic cooperation".

BULLITT

893.01 Manchuria/1279 : Telegram

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

WASHINGTON, August 27, 1935—6 p. m.

263. Your 437, August 26, 3 p. m.

1. Department appreciates the perplexities of the situation. Department desires that action of American and British consular representatives be the same.

2. Department notes Russian Consul General's reasoning and Adams' and your inclination toward acceptance.

3. Please discuss matter with British Embassy. Without full knowledge of all the circumstances and of your reasoning in concurring with Adams' view, Department hesitates to offer more than tentative suggestions. If it be a fact that there is not involved "anything more than viewing the naval display" and being present in a section reserved for consular and other officials, it would seem to Department that informal acceptance followed by attendance would have little if any political or legal implication. Department feels that fine points of protocol and diplomatic technicalities need not and should not be followed in Manchuria to such an extent as to inject unnecessary difficulties and irritants into a situation where local authorities and foreign officials are trying to carry on with some measure of elasticity. Department inclines toward avoiding acceptance, subject, however, to specification in paragraph 1 above, but Department relies on Legation's and Adams' resourcefulness and discretion to work out with the British a decision and procedure, affirmative or negative, combining plain common sense practicability with respect for the principle and position of policy to which both Governments are committed.

4. Report promptly on decision arrived at and any later developments.

HULL

793.94/7256 : Telegram

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

PEIPING, August 28, 1935—3 p. m.
[Received August 28—11 : 45 a. m.]

442. My 421, August 19, 4 p. m.[79] The situation in North China appears to be on the verge of considerable clarification. Wang Kehmin left Peiping for Nanking, August 24, presumably for the purpose of, (1) reporting on conditions in North China; (2) being told the results of the Kuling and Nanking conferences; and (3) participating in decisions on changes primarily personnel in the North China situation. Press reports of his resignation were based on a misapprehension and his return to Peiping in the near future is expected.

2. According to the best information available here the following probabilities exist: (1) Lieutenant General Wang Ching-kuo, commander of 70th Division and concurrently Director General of Reclamation Affairs in Suiyuan, will become Chairman of Chahar. (This would bring Chahar as well as Shansi and Suiyuan under Yen Hsi-shan's control perhaps for the purpose of placating him for the

[79] Not printed.

allegedly imminent declaration of independence of Inner Mongolia which will include parts of Suiyuan and Chahar.) (2) All Chahar troops will move in to Northern Hopei; Sung Che-yuan will be made Tientsin-Peiping garrison commander; and Chin Teh-chun will be given a post possibly the Mayorship of Peiping (reference is made to paragraph 2, section 2, of my 342, July 6, 5 p. m.[80]). (3) Shang Chen will continue only as Hopei Chairman and will move his troops to the vicinity of Paoting. (4) Wan Fu-lin and his troops will move into Honan thus clearing Hopei of the last of Chang Hsueh-liang's men. (5) The Peiping Political Affairs Readjustment Committee will be changed into an economic organization in order to demonstrate to the Japanese that the Chinese intend to cooperate with them economically in North China. This organization will have Wang Keh-min as chairman. (6) Provincial Chairmen in North China will communicate directly with Nanking instead of through the Political Committee. (7) Ho Ying-chin will return to continue as Chairman of the Peiping branch of Military Council.

3. These changes if they occur should (1) facilitate leadership political penetration into Yen Hsi-shan's enlarged sphere; (2) facilitate economic developments in Hopei; and (3) render less likely the occurrence of trouble between Chinese factions in the North as well as between them and the Japanese (information about Shantung is lacking). There would seem to be nothing in the proposed changes to irritate the Japanese military, provided that reports to the effect that they no longer dislike Sung Che-yuan are true.

4. Additional information with regard to independent movement of Inner Mongolia is lacking, except that recent visits of Japanese Consuls to Taiyuan and Kueihwa were probably for the purpose of legalizing it with Yen and Fu Tso-yi (the significance of the recent assignment of Japanese resident officers of junior rank under the Tokyo general staff to these two cities is not yet clear but is stated by the Japanese to be a routine measure). Reliable informants state that only Chinese Peace Preservation Corps troops will be north of Kalgan, with the exception of some Chinese troops in Changpei district.

5. It is believed locally that the recent conferences at Kuling and Nanking resulted in (1) endorsement by Chiang Kai-shek of Wang Ching-wei's Japanese policy, (2) the silencing of Wang's enemies in the Kuomintang and the Government, and (3) the decision that T. V. Soong and some Kwangsi men should be brought into the National Government at the expense of some of Wang's followers. It is expected that announcement of this realignment will be made at the Sixth Plenary Session of the fourth Central Executive Committee meeting September 20th.

Repeated by mail to Tokyo and Nanking.

JOHNSON

893.01 Manchuria/1280 : Telegram

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

PEIPING, August 30, 1935—11 a. m.
[Received August 31—12 : 35 p. m.]

449. Department's 263, August 27, 6 p. m.

1. The Legation telegraphed to Adams as follows:

"August 30, noon. Your despatch No. 114, August 22 regarding naval review. The question of your attitude has been referred to the Department which inclines toward avoiding acceptance provided, however, that unanimity in this regard can be achieved by you and your British and other colleagues. If you and your colleagues feel that refusal to attend would be impolitic under local conditions or if unanimity in refusal (excluding of course your Japanese colleagues) cannot be achieved then you may accept. Acceptance should be oral if possible and in such manner as not to imply recognition of status of inviting authority and of course without the use of official title. You should not attend banquet. I understand similar instructions have been issued to your British and French colleagues."

2. Following from Adams was received August 30, 8 p. m.:

"My despatch No. 114, August 22. Senior Consul this morning stated to the Consular Corps that he had been informed by the Deputy Commissioner of Foreign Affairs that no invitations to naval review would be issued to Consuls but that a special place would be reserved for them and that passes would be issued to those who care to apply for them. Consensus of opinion appeared to be that the matter was now one for individual decision but that we should attend informally. I respectfully submit that my relations with local officials make it desirable that I attend and I hope that the Legation will instruct me accordingly. My British and French colleagues are telegraphing in a similar sense to their Legations."

The Legation has replied as follows:

"August 31, 11 a. m. The Legation perceives no objection to your attending under the circumstances outlined in your telegram number 28."

JOHNSON

893.00/13201 : Telegram

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

PEIPING, August 30, 1935—5 p. m.
[Received August 30—1 : 50 p. m.]

447. My 442, August 28, 3 p. m. Mandate for abolition of the Peiping Political Affairs Readjustment Committee was issued August 29, by the National Government and the organization comes to an end August 31.

2. The situation appears to be developing substantially along the lines mentioned in paragraph 2 of the above-mentioned telegram.

Complete abolition of the Political Committee came as a surprise to its members. According to a responsible member, the action was the result of Huang Fu's dislike of Wang Keh-min and [I?] infer directly connected with the Japanese. There have been, however, statements in the past by Japanese to the effect that they would like to have it abolished; and it helps to clear the way for a new regime in North China. Wang Keh-min is understood to be trying to become Mayor of Peiping. He may also become head of the new Hopei Economic Association scheduled to be organized soon.

3. It is claimed by responsible Chinese officials that the proposed organization will have for its purpose some Japanese economic cooperation; that only Chinese, principally bankers, will be members; and that it will not be governmental but will "consult" with the Tientsin and Peiping Municipal Governments and the Hopei Provisional Government. According to one official, Chow Tso-min, president of the Kin Cheng Banking Corporation, will be the head. Chow was known a year ago to be negotiating with the Japanese for the building of a railway from Shihkiachuang to Tsangchow.

4. Sung Che-yuan has been appointed Commandant of the Peiping-Tientsin garrison. The question of the removal of his troops from Chahar is understood still to be in dispute.

5. The assassination of Liu (my 421, August 19, 4 p. m.[81]) is not yet settled; a former subordinate of his has confessed to the crime but his story is said to vary each time he tells it. I am informed that the Japanese insists that "the principal murderer" be apprehended.

6. The press reports today that the Japanese Consul General at Tientsin has presented five demands to the Managing Director of the Peiping-Mukden Railway with regard to the holdup on that line on August 15, these demands being limited entirely to the immediate incident and including one for "restoration of the stolen goods, which consist principally of bank notes, to the value of $35,000; failing this compensation to that value" (those to be compensated were Koreans travelling third class) Legation is attempting to obtain authoritative statement concerning demands.

7. Negotiations for North China-"Manchukuo" air communication are reliably said to have stopped as a result, according to Chinese official sources, of "excessive" demands by the Japanese in this regard.

8. I shall report more fully when the situation has become somewhat clarified.

Repeated by mail to Nanking and Tokyo.

JOHNSON

[81] Not printed; Col. Liu Tso-chou was an officer in the Peace Preservation Corps.

761.94/853 : Telegram

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

Moscow, September 3, 1935—4 p. m.
[Received 6 : 30 p. m.]

407. My telegram No. 405, September 2, 8 p. m.[82] Sakoh has just informed Wiley that yesterday the Japanese Ambassador saw Stomaniakov, not Krestinski; that on the telegraphic instructions of his Government he drew the "serious attention" of the Soviet Government to the recent Comintern Congress held with the participation of high Soviet officials in which malicious attacks against the Japanese Government were permitted with publicity in the official Soviet press. The Japanese Ambassador insisted that this had constituted a violation of the comity of nations and could not but have serious consequences for Japanese-Soviet relations. Moreover, he asked Stomaniakov if the Soviet Government proposed to permit a repetition of such incidents in which case the Japanese Government would feel obliged to take steps. Stomaniakov replied that the Soviet Government had learned in advance through the press that the Japanese Government proposed to make representations with regard to the Comintern Congress. The Soviet Government including himself personally had thereupon studied the speeches and documents pertaining to the Congress and had come to the conclusion that there was no breach of the provisions of the treaty of Peiping[83] and that therefore Japanese representations would not be warranted. The Japanese Ambassador replied that he had alleged no violation of the treaty of Peiping and repeated that his representations were based on the comity of nations. He explained further that there were groups in Japan who were working energetically for a rupture of relations between the two countries. Mr. Stomaniakov answered that it was a fundamental provision of the Soviet constitution that political refugees from abroad should be protected in the Soviet Union. He then called the Japanese Ambassador's attention to the fact that "Manchukuo" was a puppet government of Japan and harbored White *émigrés* who were continually agitating against the Soviet Government. According to Sakoh, the Japanese Ambassador, contested Stomaniakov's statement with regard to the status of "Manchukuo" and insisted that the activities and scope of the Comintern Congress were entirely different from these of White *émigrés*' in "Manchukuo." Stomaniakov during the conversation evaded giving any commitment with regard to future Comintern activities and endeavored in every way to advance extenuating circumstances in defense of the recent Congress.

[82] Not printed.
[83] Signed January 20, 1925, League of Nations Treaty Series, vol. xxxiv, p. 31.

Sakoh does not believe that official publicity with regard to the Japanese Ambassador's representations will exceed a brief statement from the official spokesman of the Foreign Office. He said that no effort would be made to elicit assurances with regard to the future. It was asserted that the purpose of the representations had been served, namely, to give a "serious warning". He explained that although anti-Soviet sentiment had been developing very rapidly in Japan a rupture of relations or other aggressive steps would not be warranted in his opinion at the present juncture as indeed there had been no violation of the treaty of Peiping.

On the subject of the fisheries dispute, he added that the Soviet Government was very anxious to expedite an agreement but that the Japanese Government was not. There would certainly be no settlement of the question before May at the earliest.

BULLITT

893.102S/1364

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

No. 1744 WASHINGTON, September 4, 1935.

SIR: The Department commends the Legation for its despatch No. 3690 of July 15, 1935, in which the Department's attention is invited to a number of despatches from the Legation and from the Consulate General at Shanghai which tend to show an increasing interest in Shanghai on the part of the Japanese and an increasing determination on their part to assert themselves in matters affecting that port.

The Department notes that the Legation is of the opinion that the events described in the despatches to which you refer would appear to indicate the possible existence of a preconceived plan of the Japanese Government to go its own way in Shanghai with but little regard for the rights or interests of the other foreign Powers.

In the opinion of the Department, the situation under discussion is one of great importance and the Department is confident that the Legation and the Consulate General at Shanghai will continue as in the past very carefully to watch developments in the situation with a view to safeguarding by all appropriate and practicable means American rights and interests, and to giving the Department the benefit of an analysis of each future development of importance, with suggestions as to the best means for meeting it. The attitude of the British Consulate General and the British Embassy in relation to such developments would be of particular interest to the Department.

Very truly yours, For the Secretary of State:
R. WALTON MOORE

893.00/13205 : Telegram

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

PEIPING, September 5, 1935—3 p. m.
[Received 4 p. m.]

457. My 447, August 30, 5 p. m. I am reliably informed that the Japanese military are not now favorably disposed towards the proposed Hopei Economic Association because of its origin. They have learned, it is alleged, that its organization is the result of a secret telegraphic instruction sent by Chiang Kai-shek to Wang Keh-min following Chiang's arrival at Nanking. This competent informant believes the Association to be already practically impotent because of this and because of false Chinese press reports with regard to Japanese participation which displeased the Japanese military.

2. The contest by Chinese of inferior mentality and anarchistic outlook for positions and spheres of power in North China is continuing. It is becoming evident that the Chahar clique while extending its control over the Peiping-Tientsin area will retain its control of Chahar. Acting Chairman Chin was appointed Chairman of Chahar August 28 and it is understood that Sung Che-yuan who has not yet assumed office as garrison commander of Tientsin and Peiping will soon bring one more division from Chahar to the Tientsin area following which Shang Chen's troops in the Tientsin area will go to Paoting. (This will mean that two of Sung's four divisions will be in Hopei and two in Southern Chahar.) The press published September 3 a statement attributed to Sung of a pro-Japanese character.

3. Wang Keh-min has been appointed a member of the National Economic Council which may or may not result in his leaving North China. The reported transfer of Yin Tung from the post of managing director of the Peiping-Mukden Railway to the Railway Ministry at Nanking is regarded as without significance, the transfer being due to the fact that he is a follower of Huang Fu who no longer has a post in North China.

4. There are indications that the Japanese military are comparatively satisfied with recent changes in the situation both at Nanking and in North China. It may be expected that Sino-Japanese army negotiations will be increasingly centered at Nanking as (1) there is no Chinese of adequate authority or calibre representing North China even nominally; (2) the Peiping Political Committee has been abolished; and (3) the Peiping Branch Military Council is practically impotent. However, the Japanese military will probably endeavor to effect further economic and political extension in North China through dealing with Sung Che-yuan and other military leaders.

5. Responsible Chinese officials deny rumors that the Peiping Branch Military Council will be abolished in the immediate future notwithstanding the facts that it has no competent head in North China, that it has no real control over Sung and other war lords of the northern provinces and that the Japanese do not regard it highly. The chief difficulty in abolishing it is said to be the finding of satisfactory posts for its members many of whom are Chang Hsueh-liang men.

6. The moderated attitude of the Japanese military may be indicated by the fact that it was the Japanese Consul General at Tientsin and not the military who presented the demands with regard to the robbery on August 15 of the Peiping-Mukden train and who made written representations to the Hopei Chairman on September 2. These latter representations demanded (as the military did in May) the elimination of secret societies in North China and of the activities of their members working through other organizations failing which it would be extremely difficult to create a genuinely peaceful atmosphere. What restraint is being exercised by Tokyo is not yet known but there are reports that three trouble-making officers, Takahashi, Sakai and Matsui, are to be transferred by the end of this year.

7. The Chinese reply to the above-mentioned train robbery has been published. It purports [to] undertake responsibility for medical expenses of the injured, improved guarding of the trains and efforts to apprehend perpetrators but it is not making mention of apology or compensation for property losses.

8. The press has announced abolition of all Kuomintang offices in Suiyuan. Chinese officials stating this effected last spring.

By mail to Nanking and Tokyo.

JOHNSON

893.00/13206 : Telegram

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

PEIPING, September 6, 1935—6 p. m.
[Received September 6—10 : 25 a. m.]

463. My 457, September 5, 3 p. m. A statement to the press by Lieutenant Colonel Matsui, chief of the Japanese Mission at Kalgan apparently reveals the present attitude toward the Japanese of Sung-Che-yuan who is seemingly becoming the dominant Chinese figure in Northern Hopei and Chahar (that is, in the area in which the Japanese military is presumably most deeply interested at present). Matsui is reported to have informed foreign press correspondents at Tientsin that Sung has experienced a conversion to the Japanese point of view in North China political matters; that he is now satisfactory to the

Japanese military in his new post; and that the Japanese intend to offer Sung inducements to remain friendly.

To Nanking and Tokyo by mail.

JOHNSON

793.003 Manchuria/2

Memorandum by the Chief of the Division of Far Eastern Affairs (Hornbeck) of a Conversation With the Second Secretary of the French Embassy (Boisanger)

[WASHINGTON,] September 10, 1935.

Mr. Boisanger requested an appointment and came in bringing the *aide-mémoire* here attached.[84]

He called special attention to the last paragraph of the *aide-mémoire* and said that his Government would like to know our opinion. I asked Mr. Boisanger just what was meant by the expression "prendraient une forme précise": did it mean "be given a formal expression" or did it mean "be made effective". Mr. Boisanger replied that it was ambiguous and it might mean either, but that he thought that the question was: What attitude would the Department expect to adopt in case the intention announced by the Manchuria authorities should be put into effect. I said that thus far we had not been informed officially of an intention on the part of those authorities to abolish extraterritoriality in Manchuria; we had merely seen in the press reports of statements on their part or on the part of the Japanese that there is that intention. I said that we are opposed in principle to such action; that we have, as have France and other countries, treaty rights with regard to extraterritoriality in China; that we regard the China treaties as still applying with regard to Manchuria; and that we do not give assent to termination of treaty rights by unilateral action; that we do not think the time has come for the termination of extraterritorial rights; and that we imagine that the French Government feels the same way with regard to these points. Mr. Boisanger said that he thought that it did. I said that it was impossible to state in advance what, given a certain situation in the future, we might do; but that the presumption might be that we would oppose by diplomatic processes any such course of action in or with regard to Manchuria. I said that I assumed that France and Great Britain would likewise view with disapproval any such action: This was one of many matters with regard to which the powers have common interests and common concern. Mr. Boisanger said that he felt that this reasoning was sound and that he would report to his Government what I had said.

S[TANLEY] K. H[ORNBECK]

---

[84] Not printed.

793.94/7269 : Telegram

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

SHANGHAI, September 10, 1935—2 p. m.
[Received September 10—10:30 a. m.]

520. 1. The following is a paraphrase of an interview given to correspondent of the *New York Times* by Major General Isogai, Military Attaché, Japanese Embassy.

2. Isogai stated that Japan will not tolerate establishment communist government any portion China, Eastern Asia but will act independently to destroy such regime. Japanese Army might assist northern provinces if communistic peril arose. He said that the Japanese Army had been requested several times by Chiang Kai-shek to assist in the anti-Red campaign but he always refused. If Japan acts against Red regime it will not be to assist Chiang Kai-shek but protecting areas bordering "Manchukuo". He said that there were other organizations in China, evidently having particularly in mind the "Blue Shirts", which must necessarily be exterminated before it was necessary to meet communistic problems. He expressed grave dissatisfaction regarding conditions North China declaring the pledges made during Japanese military demonstrations last June had not been conformed to. He referred to the recent Luanchow assassinations and stated that investigation made apparent that this was a "Blue Shirt" crime. If the entire political and military situation North China does not improve at an early date in accordance with pledges of last June, Japanese Army must necessarily take appropriate action. Reference was also made to the Sino-Japanese economic developments and five North China provinces with extreme pessimism inasmuch as thus far nothing but talk has resulted. The Chinese had proposed that they develop the district, then it was proposed that there should be a Sino-Japanese development but nothing had been done. The population of North China, terribly impoverished, creating conditions which Japan cannot let continue along "Manchukuo's" borders. Sweeping changes North China personnel administration seem inevitable before a genuine cooperation feasible, for under present conditions even proposed South Manchurian railway investments must remain [in] that stage until fundamental changes occur. He emphasized the importance of Nanking accepting the responsibility without evasion and if intermediary officials were removed Isogai expressed opinion Nanking thereafter unable dodge responsibility and must deal directly with Japan or North China provinces. He said that despite official denials from Nanking's Foreign Office that Tangku Truce contained provision establishment air lines Mukden-Peiping-Tientsin,

he reiterated that daily service commercial planes would start shortly with Chinese and Japanese planes, aviators alternating through flights connecting North China-"Manchukuo" cities and that the Chinese Government had finally formally agreed to the establishment.

3. This interview in its entirety is being cabled to the *New York Times* from Hong Kong today.

Repeated to the Legation.

CUNNINGHAM

793.94/7294 : Telegram

The Counselor of Embassy in China[85] *(Lockhart) to the Secretary of State*

PEIPING, September 25, 1935—5 p. m.
[Received September 25—11 : 25 a. m.]

10. A local Japanese press correspondent has given the local United Press correspondent an account of a written interview given yesterday to Japanese pressmen by Major General Tada, Tientsin garrison commander, at a luncheon at Tientsin. Local Japanese pressmen were taken to and from Tientsin by Japanese military plane. In view of the probability that the American correspondent's account was censored at least in part his report is being telegraphed herewith.

2. According to the Japanese press correspondent, General Tada characterized Chiang Kai-shek, his capitalistic group and the personnel of the National Government, as the common enemy of the Chinese people and declared the eradication of this evil as Japan's mission. He stated that Japan's mission is to maintain the eternal peace of the Orient and to emancipate and protect Oriental nations from the oppression of the white races; that the distress of the Chinese people is the result of the political failure of Chiang and the National Government; that the latter's perfidy and immorality is illustrated by its forgetting Japan's past benefactions to China; that it has persisted in attempting to intrigue with foreign nations to effect Japan's destruction; that as long as Chiang and his clique are in power no Japanese policy toward Chinese can be successful. Tada went on to say that Japan's policy could best be effected by establishing a peaceful land where she could be free to act and thence extend that area through example and precept forcing the Chinese people to change their present attitude by demonstration. He said that at present North China is in a position to enable Japan to realize such a plan more easily and quickly than any other section of China.

---

[85] On September 17 the Legation in China was raised to the rank of Embassy (see pp. 508 ff), with Minister Johnson presenting his credentials as Ambassador at Nanking.

3. Tada outlined the policy of the Japanese Army in China as having eight points:

(*a*) Japan's attitude toward Chinese must always be fair and impartial;
(*b*) Japan's policy must be implemented by continual exercising of pressure on China;
(*c*) commodities must be exchanged freely on a mutually profitable basis;
(*d*) Japan must respect China's independence;
(*e*) Japan must not trust personalities too implicitly;
(*f*) all new and old military groups in North China and officials who extort money from the people must be eliminated;
(*g*) Japan must work for the elimination of professional pro-Japanese politicians in China;
(*h*) both sides must correct mistaken idea of superiority.

4. Tada's statement would seem to indicate that those observers were mistaken who regarded his arrival in North China in August as an augury of a more milder Japanese policy. His statement may in short be connected with Leith-Ross' visit. His statement also indicates that the Japanese military may be abandoning General Sung Che-yuan as a means of gaining their ends in North China. When taken in conjunction with Isogai's statement reported in Shanghai's 520, September 10, 2 p. m., it may mean that the Japanese military as a whole have decided on single policy with regard to China as Isogai is understood to have represented the more reactionary military when he came to China and as Tada was understood to represent the viewpoint of the Japanese Minister of War.

5. Doihara is reported to have gone from Manchuria to Kalgan to discuss, after seeing local Assistant Japanese Military Attaché, Chinese promises made with respect to Chahar presumably those made as a result of the Japanese demands of last June.

To Tokyo by mail.

LOCKHART

793.94/7312

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

No. 9 NANKING, September 25, 1935.
[Received October 19.]

SIR: I have the honor to enclose a memorandum [86] of a conversation held by me with General Ho Ying-chin, Minister of War, on September 25, 1935, on general subjects.

Interest attaches to the statement of General Ho that the relations between China and Japan are made more difficult by the difference of

[86] Not printed.

opinion and independence of action among various Japanese military individuals and units in China, not to mention lack of unity in the Government in Toyko.

General Ho said that the Japanese accused the Chinese of not knowing their own mind and he observed that the Japanese themselves exhibited this characteristic.

Respectfully yours,

For the Ambassador:
GEORGE ATCHESON, JR.
Second Secretary of Embassy

893.515/764 : Telegram

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

NANKING, September 26, 1935—1 p. m.
[Received 11 : 45 p. m.]

15. An emissary came to me last evening at the instance of a responsible official [87] and, describing his conversation as preliminary in character and the responsible official's use of him as due to long friendship between me and the emissary, said that due to continued pressure Chinese Government was faced with the probable early necessity of making decisions which would mark a definite turning point in the history of China and create complications involving all nations interested in the East. He implied that these decisions might conceivably result in the working out of an alliance between China and Japan. He suggested that Japan might extend to the whole of China the set-up already established in "Manchukuo," alliance and all, with Japan developing and using China for aggressive carrying out of Japan's policies in the Philippines and in Siberia. The alternative, continued resistance to Japanese pressure, was mentioned but not discussed. (I think there is doubtless present in the responsible official's mind a realization that chances of Chinese obtaining financial aid as a result of Leith-Ross mission is conditioned upon China's making peace with Japan more or less at Japan's terms. In this connection one should recall Cadogan's message to the Chinese Government reported in the Legation's 106, March 4, 4 p. m., paragraph 9.[88])

Admitting that the British Government could hardly be expected to make a specific reply to a more or less hypothetical question the emissary stated that the responsible official had asked him to inquire as to the probable attitude of the United States in the event of a decision by China such as that described above. (The emissary did not

[87] Arthur H. Young, American adviser to the Chinese Ministry of Finance, was sent by Finance Minister H. H. Kung (893.515/765).
[88] *Post*, p. 551.

say but I inferred that the responsible official may be preparing arguments to meet some such decision as that described above and which is being forced upon the Government by leaders within the Government who despair of any settlement problems raised by Japanese activities short of complete submission entitled to a Japanese desire to destroy the political and economic destiny of China. The responsible official must in this connection be considered as one of several outstanding civilian leaders who have endeavored to introduce reforms and reconstruction in China with the aid of European and American advisers. They have also been prominent in acquiring and maintaining an active opposition to the Japanese. I, therefore, inferred that he was seeking some statement from me that might reenforce his argument.)

I told my visitor that he knew as well as I that I could hardly place such a question before the Department and expect a categorical reply. He could not tell me of any specifically increased pressure made by the Japanese that should bring on a crisis such as Kung seemed to fear. (Purchase [*Pressure?*] perhaps is the one created by the resignation of Wang Ching-wei and his followers in the Government and his return to office perhaps conditioned on an understanding that at the forthcoming plenary session in December a decision will be made as to whether they will continue the policy of resistance or follow a policy of submission.) I said to him that I was of course in no position to make any statement as to what the reaction of American Government to the Chinese Government's decision would be and I was sure that the American Government would not care to influence that decision one forcing on the other not knowing the conditions prevalent within and without the Government here that would in the end crown such a decision with success or failure. I said however that any one conversant with recent state papers and documents emanating from the American Government might at least consider such factors as calculated to influence American policy in the East and I cited the Department's letter to Senator Borah February 1932,[89] granting commonwealth government status to the Philippines [90] and the recently adopted neutrality resolution.[91]

Copy by mail to Peiping and Tokyo.

JOHNSON

---

[89] See telegram No. 50, February 24, 1932, 2 p. m., to the Consul General at Shanghai, *Foreign Relations*, Japan, 1931–1941, vol. I, p. 83.

[90] Act approved March 24, 1934; 48 Stat. 456.

[91] Approved August 31, 1935; 49 Stat. 1081.

793.94/7295 : Telegram

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

PEIPING, September 26, 1935—3 p. m.
[Received September 26—7:34 a. m.]

12. Embassy's 10, September 25, 5 p. m. The Consulate General at Tientsin reports that the local Japanese Consulate-General is embarrassed by publication of General Tada's statement and claims that it does not represent the policy of the Army or of the Government. It is understood that Japanese newspapers in Tientsin which published the statement in full were severely reprimanded. If the statement was given to the Japanese trade [*press?*] for background knowledge only, then a reasonable interpretation would seem to be that the action by the Japanese Army forecast in the statement is not necessarily so imminent as it otherwise would seem. Japanese newspapers so far available to the Embassy contain only an expurgated summary of the statement. From the information available it appears that the United Press account is correct as far as it goes, but that it does not include all which Tada said. The story has not been denied by the Japanese military and the Japanese correspondent who gave the story to the United Press representative now refuses to let him see the original statement.

To Tokyo by mail.

LOCKHART

793.94/7398

Memorandum by the Ambassador in China (Johnson)[92]

NANKING, September 26, 1935.

Mr. Sun Fo [93] stated in the course of a call that the situation in North China remained uncertain. He said that the Japanese have tried to get General Yen Hsi-shan and Mr. Hu Han-min to come forward and head a separatist government in the North, but that they have not met with success, as neither of these men wish to take the responsibility. He said that the Japanese were now looking for a civilian, but that they were also having difficulty here.

Mr. Sun Fo stated that Governor Yen Hsi-shan of Shansi had sent word to Dr. Kung at Nanking that he had received a call from a Japanese army officer who had with him maps showing that originally the Japanese plan had been to use China north of the Yellow River

---

[92] Copy transmitted to the Department by the Ambassador in China in his despatch No. 54, October 25; received November 18.

[93] President of the Legislative Yuan, Chinese National Government.

as a place for requisitioning supplies for troops in a war with Russia, but that now this plan had been changed to cover all of China north of the Yangtze.

Mr. Sun Fo stated that the Political Council had been abolished because the Nanking Government wanted to remove all elements that might be used independently of Nanking in North China. He thought that the Military Council would also be abolished for the same reason, thus forcing the Japanese to deal with Nanking rather than with the subordinate officers left in the North.

NELSON TRUSLER JOHNSON

793.94/7297 : Telegram

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

PEIPING, October 2, 1935—noon.
[Received October 2—11:08 a. m.]

20. There is reason to believe that the Japanese civil and military authorities at home and in China have reached agreement with regard to Japan's China policy to a degree not heretofore achieved. Recent Japanese press reports from Tokyo have stated that the chief authorities concerned have been working on the draft of such a policy and a Japanese official informed a member of the Embassy yesterday that the policy has been decided upon, that the policy has been communicated to the local Embassy but that its full purport is not clear. This last circumstance may have its explanation in a Tokyo press report which quoted a spokesman of one of the Ministries as saying if it were necessary to submit the policy to the Cabinet it would necessarily be abstract, moderate and lukewarm in tone and that although the policy will appear quite simple greater importance will be attached to its interpretation and practical application by the Ministries concerned.

2. There are indications that the Japanese intend to take important action with regard to China in the near future. These indications are (1) the tenor of Japanese press reports from Tokyo with regard to the new policy; (2) the recent statements of Isogai and Tada (see Embassy's No. 10 and 12, September 25, 5 p. m. and September 26, 3 p. m. respectively) as well as comments made recently to American correspondents by Doihara and Minami; (3) the confidential statement of a responsible Japanese that he believes important action is imminent although he does not know what form it will take nor what extent; (4) statements of a leading Chinese civilian to the effect that this is the feeling of people in Peiping and that they believe the extent

of action will depend on the Italo-Abyssinian situation; and (5) the expressed apprehension of an officer of the local Soviet Embassy of immediate important developments affecting the five northern provinces.

3. Confidential and reliable information has been received that Sakai, chief of staff of Tientsin garrison, has been seriously ill for 3 or 4 days and that some Japanese suspect that he has been poisoned by Chinese. If they should decide that this is the case new developments may be expected as a result.

4. A second of Sung's four divisions was transferred on September 29 from Chahar to the Peiping area. General Shang has not yet withdrawn his troops from Tientsin. Although this increases the possibility of trouble between Shang and Sung and although it is understood that the Japanese military anticipate such trouble and expect to make use of it it does not appear to be imminent. By mail to Tokyo and Nanking.

LOCKHART

893.01 Outer Mongolia/34

The Consul General at Harbin (Adams) to the Ambassador in China (Johnson)[94]

No. 133 HARBIN, October 3, 1935.

SIR: I have the honor to enclose three newspaper reports (two in translation) regarding relations between Manchuria and Outer Mongolia which, when considered together, arouse considerable thought and attention.

The first, from the *Manchu Nichi Nichi* (Dairen) of September 22, reports that on September 21 an important conference was held at Hsinking to discuss matters in connection with "Manchukuo's" borders. This was attended by high officials of the Hsinking Government and the Kwantung Army, and by representatives of the Tokyo Foreign and War Offices. The article states that the meeting attached great importance to the apparent fact that the Soviets are wielding considerable influence in Outer Mongolia, and that the outcome of the Manchuli Conference will accordingly influence the proposed Japan-"Manchukuo"-Soviet border commission. "Some of the stronger faction", the article continued, went so far as to insist that therefore Outer Mongolia should be considered as a part of China, that its troops should be treated as Chinese communist levies, and that the whole Outer Mongolian problem should henceforth be considered in that light.

---

[94] Copy transmitted to the Department by the Consul General at Harbin in his despatch No. 231, October 3; received November 4.

The second news despatch appeared as a Shanghai report in the *Harbin Nichi Nichi* of September 28. It stated that the Nanking Government is negotiating with the Soviet Ambassador to China some kind of agreement envisaging the ultimate recognition of the independence of Outer Mongolia by both countries.

The third press report enclosed herewith is a portion of a *Kokutsu* release of September 29 with reference to the arrival at Mukden of Major General K. Doihara from an extended visit to Chahar and Jehol. The soldier-diplomat is reported as conferring with General Minami regarding "the prevention of sovietization" of North China and Chahar. Further in the same report (not enclosed) the general is said to have informed reporters that he had important conversations with chiefs of the Silingol Mongols.

While the Consulate General does not have sufficient information to interpret the real meaning of these reports, if they are true, there are nevertheless certain conclusions which may be drawn with reasonable certainty.

It can be taken as almost axiomatic that both Japan and Soviet Russia are vitally interested in Outer Mongolia, and are doing everything possible to extend their power and influence in that region. So far, the Soviets have the upper hand; the Japanese on more than one occasion have reluctantly admitted as much. The further south the Soviet influence extends, the more alarmed Japan grows; while as Japanese influence in Inner Mongolia strengthens, the Soviets in their turn become apprehensive. At the Manchuli Conference it became more and more evident that despite the fairly free action the Kwantung Army can take in Chahar and north China, it has no such liberty with regard to Outer Mongolia. Obviously the Outer Mongolians themselves cannot thus keep the Japanese in check; and just as obviously it must have been the knowledge that the Soviets would, probably with force, obstruct any advance, which kept the Kwantung Army from taking the "decisive measures" it once threatened.

It must also be remembered that Japan and "Manchukuo" are in the midst of important negotiations with Soviet Russia concerning the boundary formed by the Amur and Ussuri rivers. This problem has no connection with the Outer Mongolian problem. It is much more clear and well-defined, and it would be greatly to Japan's advantage (in order to achieve a reasonable settlement along the Amur) not to offend the Soviets too much in Mongolia at the present time.

Although the Consulate General admits the idea to be pure speculation, it is not improbable to suppose that the position advocated by the "stronger faction" to consider Outer Mongolia as a part of China and its troops as Chinese communists, is aimed at the separation of the two

problems. The Japanese know that any direct advance into Outer Mongolia from Manchuria will arouse Soviet opposition; they likewise do not desire, at this juncture, to arouse Soviet indignation while the Amur-Ussuri disputes remain unsettled. Consequently, it might be possible to jockey the situation in north China into such a position that the Chinese, with Japanese "assistance", would advance against the seditious communist troops in Outer Mongolia. If the moves were made correctly, it is possible that Soviet Russia would have no grounds for asserting Japanese connivance, and the extension of influence in the direction of Urga might be brought about. To accomplish this, the assistance of the several banners of Inner Mongolia is necessary, and the recent sojourn of General Doihara in that region might have been made to arrange the necessary cooperation.

It may be readily surmised that the reported negotiations between the Chinese Government and the Soviet Embassy regarding the recognition by China of the independence of Outer Mongolia created disquiet in Tokyo and Hsinking. Japanese pressure on China for military action, possibly with Japanese assistance, in Mongolia similar to that being carried on against communists in other parts of China might easily encourage the Chinese Government to listen to Russian proposals regarding the independence of Outer Mongolia in order to escape such pressure. China, or a semi-independent state of north China, would have no excuse to despatch a punitive expedition into Outer Mongolia if that area were recognized as an independent country. Therefore, as the *Harbin Nichi Nichi* has editorially pointed out, the alleged Sino-Soviet conversations have great importance for "Manchukuo" and Japan, which, above all things, desire "to keep the peace in the Far East."

As this despatch was being written, the *Manchuria Daily News* of September 30 arrived, containing the following statement, credited to a special Tokyo despatch appearing in the *Manshu Nichi Nichi:*

"China's voluntary recognition of Manchoukuo, conversion of North China into a special area, Manchoukuo's participation in the economic development of North China and a joint drive by the three countries against Communism form the principles of Japan's new China policy to be enforced shortly, states a special Tokyo dispatch to the local *Manshu Nichi Nichi Shimbun.*"

Respectfully yours, WALTER A. ADAMS

793.94/7398

Memorandum by the Ambassador in China (Johnson) of a Conversation With the Japanese Ambassador in China (Ariyoshi)[96]

SHANGHAI, October 3, 1935.

In the course of a call upon Mr. Ariyoshi reference was made to the disturbed situation in North China, and I mentioned quite casually the statement of General Tada as having added somewhat to the disturbance. The Ambassador at once took up the matter and said that General Tada's statement had been a matter which the Foreign Office had instructed the Consul in Tientsin to inquire into. The Consul had reported that the pamphlet in question had been distributed to Japanese correspondents who had attended a luncheon given by General Tada; that the pamphlet was written by a younger officer; and that while in some parts it contained matter that was quite useful and good, in other parts it was very indiscreet, particularly where it directed an attack against General Chiang Kai-shek. He stated quite emphatically that the pamphlet did not express the views of General Tada nor of the Japanese Government. The Ambassador expressed himself as feeling that General Tada is an excellent officer, but he added that Colonel Sakai was a difficult person to deal with.

NELSON TRUSLER JOHNSON

793.94/7398

Memorandum by the Ambassador in China (Johnson) of a Conversation With the Japanese Ambassador in China (Ariyoshi) [96]

SHANGHAI, October 3, 1935.

In the course of conversation with Mr. Ariyoshi he remarked that conditions in North China were tending to settle down. There were one or two small matters left to be settled, one relating to air transportation between "Manchukuo" and China, which was part of the Tangku Truce. He casually stated that it would all be so much simpler if China would recognize "Manchukuo", as this would help to settle many of the border questions. Japan, he said, was not interested in starting a separatist government in North China, although there were a great many Chinese officials who were out of jobs and were prepared to intrigue with the Japanese military.

NELSON TRUSLER JOHNSON

[96] Copy transmitted to the Department by the Ambassador in China, in his despatch No. 54, October 25; received November 18.

793.94/7302 : Telegram

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

SHANGHAI, October 7, 1935—5 p. m.
[Received 5:20 p. m.]

579. 1. The Chinese economic inquiry group to Japan which has been under discussion for some time finally sailed on October 6 for Nagasaki for the expressed purpose of investigating economic and trade development in Japan. On sailing, the group issued a statement expressing the hope that the result of their investigations may lead up to definite efforts on both sides for a real Sino-Japanese economic *rapprochement*. The group, which was feted by Shanghai Chinese and Japanese organizations prior to departure and seen off by Minister of Finance Kung and [Administrative Vice] Minister of Finance Hsu Kan, consists of very prominent Shanghai bankers, Yu Tso-ting, chairman, the General Chamber of Commerce of Shanghai and O. S. Lieu, general manager of the China Merchants' Steam Navigation Company. Wu Ta-chuan, general manager of the Yi Yieh Commercial Bank, Sung Han-chang, the managing director of the Bank of China and Tang Shou-min, general manager of the Bank of Communications are among others of the group of which Wu is chairman.

2. The Bank of China, the Bank of Communications and the China Merchants' Steam Navigation Company are Chinese Government-controlled organizations. The latter company is apparently interested in the purchase of additional ships (see Department's instruction of August 26,[97] file 893.852/17). O. S. Lieu has recently been active in the proposed formation of a sales monopoly for matches in Central and North China involving Japanese participation and is reported to be working on a similar proposal in regard to coal.

Repeated to Peiping and Nanking.

CUNNINGHAM

893.00/13258

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

No. 25 PEIPING, October 8, 1935.
[Received November 2.]

SIR: I have the honor to refer to the Embassy's despatches Nos. 3450[98] and 3621 of March 22 and June 17, 1935, respectively, with

[97] Not printed.
[98] No. 3450 not printed.

regard to the political orientation of Sinkiang toward the Soviet Union, and to enclose a memorandum by Mr. Clubb[99] under date October 1, 1935,[1] comprising information furnished by a recent arrival from the province in question.

Certain supplementary factual material was obtained from that source clarifying and corroborating the several aspects of the immediate historical background of present conditions in Sinkiang. Of more interest, however, were the traveller's statements with regard to the rapid extension of Soviet Russian influence in Sinkiang at the present time. Following upon the initial influx of Soviet Russians (in various guises) in December, 1933, for the rendering of assistance to General Sheng Shih-ts'ai in the latter's drive to power, large numbers of highly trained military, political, and technical organizers evidently arrived from the Soviet Union and went to work at changing the structure of the province in accordance with a program which seems at the least to have been Soviet-inspired. Care has been taken to maintain an outward show of allegiance to the National Government at Nanking (the latest profession of fidelity from General Sheng Shih-ts'ai to that Government was printed in the press as late as October 2, 1935), but in fact the Communist Party in Sinkiang is apparently being developed along lines that will enable it to dominate the government of that border territory and—possibly with the help of the Soviet Union—to resist attacks on the province from the outside. These developments characterize most aspects of Sinkiang affairs at this time. The military, political, economic, and educational functions of the region are all being pushed forward along lines more like Soviet Russian than Chinese patterns, and it would appear from the evidence thus far obtained that a "People's Republic" similar to that of Outer Mongolia is planned.

The present political circumstances of China's Northwest are of striking interest, for Soviet Russia, Japan, and China seem to be converging upon a point in central Asia. The pressure of the Soviet Union eastward confronts what is apparently an attempt at a flanking movement by Japan against Siberian Russia through Inner Mongolia. From the south, nominally at least in pursuit of the Chinese Communist armies, over 200,000 National Government troops are being poured into Shensi and Kansu. It is obvious that the three forces may well, unless the present movement is reversed, come into open and direct conflict.

Respectfully yours, NELSON TRUSLER JOHNSON

[99] Oliver Edmund Clubb, Third Secretary of Embassy in China.
[1] Not printed.

747.94/17

The Consul General at Sydney (Moffat) to the Secretary of State

No. 26 SYDNEY, October 12, 1935.
[Received November 6.]

SIR: Following my recent visit to Canberra I have attempted, on the basis of my conversations there, supplemented by impressions gained in Sydney, to analyze and appraise the Australian Government's view of its present-day relations with Japan.

1. As much as any one factor, Australian mistrust of Japan keeps the Commonwealth content not only to follow Great Britain (sometimes against its immediate interests) in the latter's foreign policy, but to play the role of an active and willing partner in the Imperial association. When Mr. Lyons, the Prime Minister, said to me the other day "My Government will follow the British lead: I can never forget that some day Australia may find herself in Abyssinia's present plight", and when, in like vein, Mr. Menzies, the Attorney-General, in the course of a careful statement of policy before Parliament declared—"If we do not support Britain why should she support us?" both men were thinking of Japan and of Japan alone.

2. Relying as she does upon British help in case of Japanese aggression, it naturally follows that Australia desires to see the British Fleet as powerful as possible. This is particularly true in the cruiser category, where a marked British predominance would play an important role in keeping Australian communications free and open. Australia is obviously out of sympathy with our policy of demanding parity with Great Britain in the cruiser class and still more so with our policy of advocating a further (even if proportionate) reduction in the number of cruisers. I have found no sympathy with the conception of relativity in computing naval strength; logic to the contrary notwithstanding, Australia seems to prefer a large British fleet in the absolute sense even if it means a larger Japanese fleet.

3. Despite the near completion of the Singapore base, Australia still considers Britain's present fleet undermanned and too weak adequately to protect her. She also questions whether America would come to her aid and cites our withdrawal from the Philippines as an instance of our growing disinterestedness in the Pacific. At any rate, with British strength impaired and with American aid doubtful, Australia considers herself driven by logic to "make friends" with Japan.

4. Another factor enters into the picture at this point, namely, Japan's increasing purchases of Australian wool and her very large adverse trade balance with Australia. Japan is using this situation in every legitimate way in an attempt to force concessions from the

Commonwealth, and so uneasy is Australia over the possibility (remote, it seems to me) of losing Japanese competition in her wool auctions and the Japanese market for her primary products, that there is a noticeable disposition to conclude a trade treaty with Japan even at the cost of considerable sacrifice. Negotiations to date have been unproductive, largely for the reason that Japan competes in the Australian market primarily with Great Britain, and concessions that would penalize British trade are considered both inadvisable from the political point of view and, as a result of the Ottawa agreements,[2] impossible from the legal. Could Australia find concessions at our expense that would satisfy Japan there is a strong possibility that she would grant them, so marked is her present resentment at our failure to purchase from Australia.

5. Australia believes that Japan must expand in some direction, and rejoices every time Japan becomes involved abroad, provided it is not in a southerly direction. Thus I have yet to meet an Australian who opposed Japan's Manchurian policy or desired to see Japan out of Manchukuo. This view finds reflection in an idea which I have heard referred to in conversation by Mr. Lyons, and by several non-official Australians, that one of the greatest contributions that could be made to world peace would be some sort of a Pacific pact based on the theory that the present *status quo* in the Pacific represented a fair balance of strength which could well be perpetuated.

6. Meanwhile, although Australia is more than willing to negotiate directly with Japan on matters of trade, she is decidedly unwilling to negotiate directly with Japan on political matters. Hence her reluctance to establish diplomatic representation in Tokyo. Partly, I think this is due to a certain inherent inferiority complex of Australia in foreign affairs; partly to an absence of trained men; partly to a belief that Great Britain can speak in her behalf more forcibly than she could herself; and partly to a fear that Japan may some day publicly raise certain unpalatable subjects, such as Japanese immigration into Queensland, Japanese participation in the coastwise trade, etc.

7. I have been told in strict confidence by an Australian of prominence, who is not a member of the Government but to whom the Government is beholden, that Japan some six weeks ago sent a note seriously urging Australia to reconsider her immigration policy; she even offered that if a Japanese immigrant should marry, or even consort with a white woman, he would at once be "recalled". According to my informant, Ambassador Debuchi during his recent visit

[2] Signed August 20, 1932; for British Act of Parliament to enable effect to be given to the Ottawa agreements, on November 15, 1932, see *British and Foreign State Papers*, vol. CXXXV, p. 151.

merely asked whether the note had been received, and did not push the subject further. I report this with considerable reserve, as I have to date had no confirmatory evidence.

8. Occasionally I have come across expressions of faint regret that the Anglo-Japanese alliance had lapsed, on the theory that while it lasted Japan could not possibly afford to endanger or even to embarrass Australia. Frequently, however, I have seen evidences of a belief that Australia stood definitely to gain from rivalry between Japan on the one hand and the United States on the other, with Great Britain acting as honest broker between the two.

9. With these varied elements of the picture before it I think the Department can understand the reasons for Australia's reluctance to take a strong stand, similar to that taken by General Smuts,[3] in favor of an Anglo-American alignment during the Naval Conversations in London last autumn.[4] "We must give Japan no excuse to adopt an anti-Australian policy, either political or commercial" epitomizes Australian policy today.

Respectfully yours, J. PIERREPONT MOFFAT

761.9315 Manchuria/16 : Telegram

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

Moscow, October 13, 1935.
[Received October 13—12 : 20 p. m.]

454. According to an official Tass report in the *Pravda* October 13th Japanese Manchurian divisions crossed the Soviet frontier on 6th, 8th, and 12th of October and fired on Soviet border guards. Skirmish on October 12th included rifle and machine-gun fire and casualties reported. The Soviet Government has protested to Tokyo and has proposed naming a mixed commission for investigation.

SHANTZ

793.94/7308 : Telegram

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

PEIPING, October 17, 1935—5 p. m.
[Received October 17—12 : 10 p. m.]

71. Embassy's 31, October 7, noon.[5] Interest at the moment centers on the scheduled meeting of Japanese military and diplomatic officials

[3] Gen. Jan C. Smuts, Deputy Prime Minister and Minister of Justice, Union of South Africa.
[4] See *Foreign Relations*, 1934, vol. I, pp. 299 ff.
[5] Not printed.

in Shanghai on October 20 but current newspaper reports indicate that important decisions were reached at the present Dairen conference of October 13–14. The importance of the Dairen conference is demonstrated by the attendance of Major General Okamura, Major General Tada, Major General Isogai and Major General Itagaki, all of whom occupy important posts in the Japanese Army organization in China. According to *Manchuria Daily News* of October 14, Okamura presented in detail to the others Japan's new Chinese policy alleged to have been formulated in Tokyo by the Ministries of War, Navy, Foreign Affairs, and Finance and received their full approval. A Reuter report of October 16 from Dairen states that it was decided at the conference to push forward plans for the conversion of North China into a field for Sino-Japanese cooperation and the Japanese Army would regard the Nanking Government as the first party with which negotiations should be conducted. The report continued: "It was also decided to request the Chinese Government to root up all causes of trouble in North China failing which the Japanese Army would insist on the divorcing of North China from Nanking's control including withdrawal of Central Government troops and complete severance of financial relations." Two opposing points of view appear to prevail in Chinese circles regarding Japanese program, (1) that Chiang Kai-shek has already acquiesced in the Japanese program for North China and that in any event the Japanese proposals will in the end be accepted; [(2)] that the Chinese will retreat no farther but will resist with military force if necessary. The supporters of the second view point out that the present disposition of troops in North China under the leadership of Sung Che-yuan and reorganized northwest China under Chiang Kai-shek is strategically favorable for the offering of resistance to an attack from beyond the Great Wall.

Colonel Takahashi, Military Attaché of the Japanese Embassy, is alleged to have expressed concern over these concentrations of Chinese troops and to have said that the Japanese Army would take steps to meet any menacing move emanating from that source. It is most likely that the concentration in the Northwest is due entirely to the communist shifting in that region and that the removal of Sung's troops to Peiping means only that General Sung desires to have his troops within his own jurisdiction. As the situation now stands it seems reasonable to infer that the Japanese plan will depend primarily upon Sino-Japanese economic cooperation for the extension of Japan's influence in North China.

Copy to Tokyo by mail.

LOCKHART

893.00/13234 : Telegram

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

PEIPING, October 18, 1935—3 p. m.
[Received October 18—6 : 30 a. m.]

74. Following from Canton:

"October 16, noon. I am confidentially informed that there is strong possibility of a separatist move by Southwest in November unless Chiang Kai-shek unexpectedly again postpones Fifth Congress or compromises acceptably. Such a move also forecast in pronouncement to the press by Hsiao Fu-chen, who returned from Siam only 2 days ago, announcing separate Congress in Canton. Chen Chi-tang at present apparently adamant in his attitude towards both Nanking and Japan.["]

LOCKHART

893.00/13236 : Telegram

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

NANKING, October 19, 1935—noon.
[Received 5 : 42 p. m.]

35. 1. The Ambassador is now in Shanghai and what follows is my personal estimate of the political situation. Chiang Kai-shek arrived in Nanking October 14 and it is reported that he will leave today or tomorrow. On October 17 T. V. Soong and Huang Fu arrived. It is reported that Yen Hsi-shan may come also. Practically all of the leading politicians and members of the Central Executive Committee are here both because of the presence of Chiang Kai-shek and the coming plenary session of the Central Executive Committee on November 1.

2. The problems being dealt with by General Chiang are mainly:

(*a*) The rumored new Japanese policy providing for the demilitarization of the "five provinces" north of the Yellow River and west as far as Shensi and Suiyuan in order that this area may be prepared for Sino-Japanese political and economic cooperation. It would seem that the general orientation of the attitude of the Chinese Government toward Japan is subordinate to this pressing question. There is an unusual concentration of troops and anti-aircraft equipment at Nanking at present and this appears to have caused popular rumors of an imminent clash between Japan and China. However, I assumed from Chinese sources that no such clash is anticipated. This concentration may be purely accidental in the course of routine movements of troops and the despatch of troops over the Tientsin-Pukow and Lunghai Railways to the northwest whither it is reported over 200,000 troops have been sent and more are proceeding nominally for the prosecution of the anti-communist campaign. It is said that the Japanese have pre-

sented two apparently conflicting demands to Chiang, that is, that he remove troops which appear to threaten their sphere of interest in North China and that he prevent the communist threat to that area. The widely reported conference of Japanese military authorities at Dairen on October 13 and the forthcoming conference of Japanese military and naval and Foreign Office officials at Shanghai on October 20 seem to support the Chinese belief that Japan intends to force China to come to some sort of a definite stand in Sino-Japanese matters. Reports from both Japanese and Chinese sources are that these conferences are intended merely to unify Japanese activities in China.

(*b*) There is a revival of the proposal to end the period of tutelage and set up a constitutional government. It is doubtful whether General Chiang believes the present moment suitable for him to emerge as a constitutional President of the Republic. In any event if the Kwangtung coalition succeeds in preventing the Nationalist Party Congress scheduled for November 12, this project must be shelved.

(*c*) The dispute with Canton involves relations with Japan as well as the continuation of the Canton branch political councils and military affairs committee. It is reported that Canton yielded to Japan in the Swatow tax controversy because Chiang consented to augment his subsidy to Canton in partial restitution of the annual income from provincial rice tax thus lost.

3. This estimate will be supplemented as additional information is obtained.

Copy by mail to Peiping and the Ambassador at Shanghai.

PECK

893.5123 Manchuria/3 : Telegram

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

PEIPING, October 19, 1935—2 p. m.
[Received 6 : 03 p. m.]

78. Embassy's 22, October 2, 4 p. m.[6] Mail report has been received from Consul General Adams. He states that Chinese and all non-extraterritorial foreigners will be required to pay this "head tax on individuals" and that determined effort undoubtedly be made to apply it to extraterritorial nationals. Japanese Consul General informed Adams that Japanese nationals will be required to pay it. Japanese acquaintances inform Adams that some Japanese individuals plan to pay tax, but that others are making vigorous objections. Adams considers that the amount of the tax is not unreasonable in relation to the municipal services performed in return. He feels that chief objectionable feature is that acceptance of the tax in present form will probably lead to attempts by the local authorities to inquire into personal affairs of American citizens.

---

[6] Not printed.

Adams states that local authorities have the ability (as distinguished from the legal right) to require American citizens to pay this or any other tax within reason.

Adams proposes to object to the application to Americans of this tax with the ultimate aim of arriving at some arrangement which will enable Americans concerned to pay tax as "voluntary contribution" without investigation into their personal affairs by the local authorities.

Instructions issued to British Consuls General at Harbin and Mukden within the last few days by British Embassy here based on instruction received from British Foreign Office may be summarized as follows.

In case local authorities endeavor to investigate incomes of British persons you should refuse to admit their right to do so and make formal protest on the grounds that British subjects are not liable to taxation which has not been made applicable to them by treaty or British legislation.

British persons who object to investigation and payment of this tax should be advised that they should submit after making merely formal protest, and they should be informed that you can afford them no protection beyond representations on their behalf. It should be suggested that it would be advisable to supply accurate information as far as possible in order to avoid obnoxious investigation.

In the cases of British persons who are willing to consent to the application of this law you should informally cooperate with the authorities as far as possible.

Please keep in close touch with your American colleague. End of summary.

I recommend that proposal made by Adams be approved, but that, if he is unable to arrive at an arrangement for the payment of the tax as "voluntary contribution" without investigation into their personal affairs, he be instructed to follow course similar to that of the British, but that any representations made should be informed.

Department's instructions are requested.[7]

LOCKHART

893.01 Outer Mongolia/30 : Telegram

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

PEIPING, October 21, 1935—6 p. m.
[Received October 21—8 : 30 a. m.]

79. Following telegram has been received from the Consul General at Harbin :

[7] The Department gave its approval in telegram No. 84, October 23, 1935, 2 p. m.

"43. October 21, 6 p. m. The Soviet Consul General informed me today that according to an accurate press despatch received by him from Moscow, Kanki of the 'Manchukuo' delegation at Manchuli has informed the Outer Mongolian delegation that if the refusal to accept a 'Manchukuo' diplomatic representative at Urga remains unaltered, an expedition will be despatched to establish one by force."

LOCKHART

894.20/151

Memorandum by the Second Secretary of Embassy in China (Salisbury)[8]

[PEIPING,] October 21, 1935.

There are many cliques in the Japanese Army, among which the two outstanding groups affecting the situation in Japan Proper at present may be designated by the terms (1) the Araki-Mazaki group or the Immoderates and (2) the Hayashi-Imai group or the Moderates. According to the source of information mentioned in the covering despatch, there are many other groups among the army officers of varying degrees of viewpoint. One of them is the Ugaki group which stands closer to the Hayashi-Imai group than to the Immoderates; and General Ugaki, now Governor General of Chosen, is gradually becoming more favorably regarded by army officers than formerly and the possibility of his becoming prime minister in the not very remote future is increasing. These informants were not sure with regard to the attitude of officers in Manchuria with the exception of that of General Minami, Commander-in-Chief of the Kwantung Army and Ambassador to "Manchukuo", who, they were all confident, is close to General Hayashi of the Moderates. They were also not certain with regard to the attitude of the Japanese military officers stationed in China. One official said, however, with reference to the inflammatory statements issued by these officers from time to time that he had personally known General Tada, the new Commander of the Japanese Tientsin Garrison, that he had been greatly surprised at the inflammatory pamphlet which had been given to the press last month at a luncheon at which General Tada was host, and that he believed that such statements were issued because these officers felt them to be necessary in order to retain their prestige. Another official expressed the belief that the officers in Manchuria have been influenced by the "moderate" General Minami to some extent, while the officers in China Proper are still immoderate.

---

[8] Copy transmitted to the Department by the Ambassador in China in his despatch of October 24 from Shanghai; received December 4.

The Hayashi-Imai group is regarded by civilian Japanese as being composed of officers who are what army officers ought to be from the normal viewpoint and as intending to unify the army and to restrict its activities to the sphere which an army normally occupies. The Araki-Mazaki group is regarded as emotional and as entering into spheres in which an army, from the normal viewpoint, has no proper place. Although the Hayashi-Imai group is gaining strength, the Araki-Mazaki group is still the stronger of the two.

Two civilian Japanese officials stated definitely that the assassination during this past summer of General Nagata was not the sudden act of a discontented officer (Lieutenant Colonel Aizawa) but that the Araki-Mazaki group had had foreknowledge of the act and that General Nagata was killed because the Araki-Mazaki group hoped thereby to put fear into the Hayashi-Imai group because the latter had succeeded in ousting General Mazaki from office and in effecting thereby certain transfers and retirements which strengthened the moderate group at the expense of the immoderates. One of the results of the assassination was the resignation of General Hayashi as Minister of War and the compromise appointment to that post of General Kawashima, described by a Foreign Office official as "a dark horse" who had theretofore scarcely been heard of by civilians and who is thought to stand somewhere between the Moderates and the Immoderates in opinions. (There is a rumor current, though not confirmed, that Prince Chichibu, brother of the Emperor, who was transferred August 1 to Hirosaki, near Aomori, in northern Japan, was so transferred because the Moderates wished to make it impossible for the Immoderates to make any use of Prince Chichibu in any plot looking toward a change in the political situation in Tokyo. It will be recalled that the plot of junior officers of October, 1931, allegedly envisaged making Chichibu nominal dictator of Japan.) According to one of the informants, the suicide of Colonel Yamada, which followed the assassination of General Nagata, was due to his remorse arising from the fact that he had had prior knowledge of the plot to assassinate the officer but had done nothing to circumvent it. So active a remorse was induced by Lieutenant General Kiyoshi Imai, who succeeded the deceased General Nagata as Chief of the Military Affairs Bureau of the War Ministry and who lectured Colonel Yamada for two or three hours on his iniquity in withholding his guilty knowledge.

According to one official, the methods of the Moderates are illustrated by their activities in connection with the elections of last spring for representatives for the prefectural assemblies. He stated that General Imai, whom this informant regards as the most significant of the Moderates and whom another official believes may become eventually Vice Minister and then Minister of War, urged General

Hayashi, then Minister of War to instruct all reservist organizations to discourage their members from running for membership in the prefectural assemblies and not to vote for reservists standing for office. He urged this on the grounds (1) that reservists should not participate in politics and (2) that, if reservists were elected, they would be unable to do anything to enhance the prestige and the reputation of the Army. General Hayashi followed this advice, and as a result only three reservists out of a total number of some 200 reservist candidates were elected to membership in the prefectural assemblies. Presumably this was a source of irritation to the Immoderates.

These informants believe that there has occurred some decrease in the prestige of the Army among the people of Japan, but all were agreed that the mass of the people is still strongly behind the military. One of the informants, an official who traveled during the past summer on official business through the northern part of the main island, stated that he had found that enthusiasm for the military had waned somewhat in the rural districts. He also said that a number of his friends who had served three months' periods during this past summer as reservists in areas outside of Tokyo had noticed an absence in those areas of reactionary officers, an observation which led them to think that reactionary officers were at present largely stationed in Tokyo. A Foreign Office official stated that Mr. Hirota, the Foreign Minister, can do nothing effective to decrease the power of the military, that gradually—very gradually—there is growing among the people an understanding of the injuriousness of the present military policy, but that civilian officials must move most cautiously in efforts to lessen the prestige of the military because of attendant danger. Another informant, who is deeply interested in politics and who intends to stand for membership in the Diet in 1936, expressed the belief that there would occur during the next three years a significant decrease in the prestige of the Army. According to one of the informants, the decreased prestige was indicated by the complete failure of the President of the South Manchuria Railway Company, Mr. Matsuoka, during the past two weeks to obtain any money either in Tokyo or in Osaka for investment in North China in accordance with the plans of the military.

None of these informants were very clear with regard to the significance to Japan which lies in the possible success of the Hayashi-Imai moderate group in gaining control of the Army. They seemed to think that it would not have much effect for some time on the present China policy but that their gaining control, together with a lowered prestige of the military, would make probable an eventual restriction of the activities of the Japanese military to "Manchukuo". None of them believed that any change would occur soon enough to alter

the plans of the Japanese military with regard to North China. None of them seemed interested in what is going on in North China and none seemed to have information in regard thereto. They were all agreed that there could be no withdrawal by the Japanese further than to the Great Wall. The informants in general anticipated that there would occur more assassinations within the Japanese Army.

There was noticeable among the informants a tone of resignation with regard to developments which may occur in the near future but a distinct hope for the somewhat distant future, a hope which seemed to envisage an eventual return to conditions somewhat approximating conditions which existed prior to the Mukden incident of 1931.

When asked to give their opinions with regard to the effect of the policy of the League of Nations and of Secretary of State Stimson [9] with regard to the Manchurian situation, these informants stated that that policy had in no way restrained the Japanese military, had in fact strengthened the military by gaining the military additional popular support among the people of Japan, and had made it possible for the military to go further on the Asiatic mainland than they could have done or would have done if the League and Mr. Stimson had been less vocal. They seemed to be of the opinion that the Japanese military would have confined their activities to Manchuria if the Western powers had been more restrained in their attitude toward Japan.

761.9315 Manchuria/19 : Telegram

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

PEIPING, October 22, 1935—9 a. m.
[Received October 22—7 : 30 a. m.]

80. Embassy's 72, October 17, 6 p. m.[10] Two despatches from the Consulate General at Harbin under date of October 17, report Soviet and Japanese reactions to the border incident. The Soviet Consul General at Harbin stated that the Japanese-"Manchukuo" border patrol adopted a very belligerent attitude toward Soviet patrols; that violations of the Soviet frontiers are reported almost daily; and that serious developments are possible with the Japanese attitude as it is.

An editorial, believed by the Consul General to represent the official Japanese point of view, in the *Harbin Nichi Nichi*, laid the blame for border incidents on the Soviets and characterized the present incident as one of unprecedented gravity; in case the Soviets continue to evade their responsibility, Japan and "Manchukuo" will be forced to take "decisive steps". The editorial concludes with the admonition that,

[9] Henry L. Stimson, Secretary of State, 1929–33.
[10] Not printed.

if the Soviet troops desire peace, they must give a guarantee of that desire and such a guarantee would comprise the withdrawal of the 300,000 Soviet troops from the East to the West.

LOCKHART

893.01 Manchuria/1300

The Consul General at Harbin (Adams) to the Secretary of State

No. 249 HARBIN, October 22, 1935.
[Received November 18.]

SIR: I have the honor to report statements made to me by Mr. Balser, German Consul at Harbin, on the subject of relations between "Manchukuo" and Germany.

Mr. Balser stated that the question of relations between Germany and "Manchukuo" were of some importance because of the considerable trade between the two countries based upon the shipment of soy beans from Manchuria to Germany. He stated that Germany was not committed to the attitude of the League of Nations towards "Manchukuo" and that the question of according formal recognition to "Manchukuo" had received the serious consideration of the German Government. He said that Germany considered that China herself would soon be required by Japan to recognize "Manchukuo" and that the way would then be open for Germany to act promptly. For this reason Germany had dropped, for the time being, the question of recognizing "Manchukuo", feeling that a short delay would be better than to risk the effect of Chinese resentment upon the considerable German interests in China proper which German recognition of "Manchukuo" at the present time might entail.

I asked Mr. Balser whether the question of the formal recognition of "Manchukuo" by Germany had arisen in connection with the approaching visit of the German economic mission. He replied that it had been very much to the fore in the discussions which he had been conducting with the authorities at Hsinking with regard to the visit of the mission. He said that the Hsinking authorities had been so emphatic on this point that he had finally stated that if they insisted upon it he would be forced to recommend that the German economic mission avoid visiting "Manchukuo". He stated that the "Manchukuo" authorities had thereupon assured him that the question of recognition need not be taken up at present and that they by all means desired the mission to visit "Manchukuo".

Mr. Balser said that the German economic mission would arrive in Tokyo on October 25, 1935.

Respectfully yours, WALTER A. ADAMS

793.94/7394

The Consul General at Shanghai (Cunningham) to the Ambassador in China (Johnson)[11]

[No.] 8936 SHANGHAI, October 23, 1935.

SIR: I have the honor to refer to this office's despatch No. 8834 of September 4, 1935,[12] in which was reported the informal protest of Mr. Itaro Ishii, Japanese Consul General, in regard to articles published recently in the *China Weekly Review*[13] (American and Chinese registered), and to enclose a copy of a memorandum of conversation[12] between Consul General Ishii and myself on October 18, 1935.

Consul General Ishii referred to his previous visit on September 3, 1935, and stated that it was more or less informal and unofficial but that since no relief had been obtained by his oral protest it would be necessary for him to make an official protest in writing against the publication in the *China Weekly Review* of the articles mentioned in the enclosure to my despatch referred to above. I informed Mr. Ishii that it would be impossible for me to comply with his request and apologize for the publication of the articles in the *China Weekly Review*, nor would it be possible for me to censor Mr. Powell[14] for publishing the articles.

Respectfully yours, EDWIN S. CUNNINGHAM

793.94/7472

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

SHANGHAI, October 24, 1935.
[Received December 4.]

SIR: I have the honor to enclose memoranda[15] of conversations between the Secretary of War of the United States,[16] Dr. H. H. Kung, Chinese Minister of Finance, and myself, which occurred on October 24, 1935, in my apartment at the Cathay Hotel, during the recent visit of Mr. Dern to China. As is evident, the statements of the Secretary of War were non-committal and he appeared to limit himself to questioning Dr. Kung. The latter, in talking of the silver policy of the United States, said that it had had a bad effect on China's financial situation.

[11] Copy transmitted to the Department by the Consul General in his despatch No. 10393, October 23; received November 18.
[12] Not printed.
[13] The articles in question referred to the Emperor of Japan in terms considered objectionable by the Japanese.
[14] John B. Powell, American editor and publisher of the *China Weekly Review*.
[15] None printed.
[16] George H. Dern.

He also expressed the belief that further advances by the Japanese in North China are steps in a major Japanese plan to dominate the whole of China, the Philippines, the Dutch East Indies and eventually the world. Public sentiment in Japan, he claims, is being educated to the military point of view by a press which is military-controlled and backed up by Army reservists carefully schooled for the purpose of indoctrinating the public with chauvinistic ideas. Dr. Kung also indicates the difficulties which the Chinese Maritime Customs are experiencing with Japanese smugglers. Finally, he expressed his belief that the Philippine independence would be short-lived.

Respectfully yours, NELSON TRUSLER JOHNSON

793.94/7549

Memorandum by the Ambassador in China (Johnson) of a Conversation With the British Ambassador in China (Cadogan)[17]

SHANGHAI, October 24, 1935.

In a conversation which I had today with Sir Alexander Cadogan, the subject of the warning which, according to the press, was delivered to the local Chinese authorities at Tientsin and Peiping yesterday, by General Tada and the Japanese Consul General, Kawagoe, came up, and Sir Alexander expressed his inability to fathom the Japanese intentions and plans in regard to China. He remarked that our Japanese colleague seemed to be completely out of the picture, and that Japan apparently continued to make its wishes known to the Chinese through agents who were constantly calling upon Chinese officials and making statements. He thought probably that, at the basis of it all, was the statement issued by Amau on April 17th of last year.[18] I stated that I was equally at a loss and that it seemed to me the Japanese policy, as frequently enunciated by the military, is hardly likely to be economically profitable in the long run, although I foresaw eventually that Western merchants would find themselves blanketed by the crowd of Japanese merchants able to out- and under-sell them. Sir Alexander agreed, and stated that he had well-authenticated information to the effect that the Customs barrier at Shanhaikwan had practically been done away with; that smuggling was going on there on a very large scale; that anyone traveling through Chinwangtao and Shanhaikwan could see a stream of coolies carrying large bundles of silk and other wares, guarded by Koreans armed with staves and other weapons. He said that Sir Frederick Maze[19] had confirmed this

[17] Copy transmitted to the Department by the Ambassador in China, in his despatch No. 90, November 16; received December 19.

[18] *Foreign Relations*, Japan, 1931–1941, vol. I, p. 224.

[19] British Inspector General of the Chinese Maritime Customs Administration.

and had stated the Chinese Customs were completely unable to cope with it; that, even farther down the railway at Tientsin, they were unable to examine these goods. I told Sir Alexander that in a conversation I had had with an American merchant yesterday, who had just returned from a vacation in Dairen, the latter had informed me that Dairen was full of Japanese merchants waiting for the signal to move into China and establish business, using the free port of Dairen as a base for supplies, and that I felt quite certain that if and when the Japanese military moved into north China, we would find that, insofar as Japanese merchants were concerned, the port of Tientsin would be just as open as was now the case at Shanhaikwan, and, of course, this meant that the whole of China was open, for I thought it would be utterly impossible for the Chinese to establish Customs barriers along any interior line south of Tientsin where it could be effective.

I asked Sir Alexander whether the Japanese government had ever taken the British government into its confidence in regard to its plans in China. I said that I had in mind the Four-Power understanding made at the time of the Nine-Power Treaty, whereby the four principal powers agreed to keep one another informed of measures considered by them necessary to protect their interests in China.[20] Sir Alexander stated quite categorically (and repeated the statement) that insofar as he was informed—and he thought that surely he would have been informed—the Japanese government had never taken the British government into its confidence. He expressed the conviction that insofar as the Nine-Power Treaty was concerned, it was a dead letter; an agreement which the Japanese did not intend to take seriously in regard to any plans which they might have regarding China. He agreed with me that there were probably two explanation[s] for the policy which the Japanese military were now pursuing: (*a*) that they had put their national pride up to the point where they could not tolerate the idea of Western interests in an area which they looked upon as the particular field for realizing Japan's civilizing ambitions as a nation, and (*b*) a fear of Soviet Russia. With regard to "(*a*)", we agreed that while Western interests were bound to suffer, such interests were so large that it would take a long time to liquidate them, a process which could only be harmful to the Japanese; and with re-

[20] Marginal notation by the Assistant Chief of the Division of Far Eastern Affairs: "??? Applies only to Pacific islands and dominions. M[axwell] M. H[amilton]." See art. I of treaty signed at Washington, December 13, 1921: *Foreign Relations*, 1922, vol. I, p. 33. In a reply to Mr. Hamilton, the Ambassador in China on February 26, 1936, stated: "I suppose that what was in my mind was really a composite of the obligations entered into by the four Powers regarding their interests in their insular possessions and insular dominions in the region of the Pacific Ocean and the obligation implied in Article VII of the Nine-Power Treaty regarding China". (793.94/7822). For text of Nine-Power Treaty, see *Foreign Relations*, 1922, vol. I, p. 276.

gard to "(*b*)", that the occupation of extended areas in China with a possible eye to the value of China as a source of raw materials to be used by their people, would, in case of a war, demobilize a very considerable amount of the Japanese striking power, because of the necessity of a large garrison to hold the people down.

NELSON TRUSLER JOHNSON

793.94/7321 : Telegram

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

NANKING, October 25, 1935—noon.
[Received 7 : 30 p. m.]

37. The following news release, bearing date line Shanghai, October 24, has been circulated by Reuter's Nanking Agency under heading "For your information only" which generally means that the Agency is prepared to deny responsibility for the truth of the report if circumstances require.

"The following is the latest version of alleged Japanese demands to China which are reported to have already been presented:

1. Discontinuance of negotiations with Sir Frederick Leith-Ross.
2. Financial independence for the Provinces of Hopei, Shantung, Shansi, Chahar and Suiyuan.
3. China's resignation from the League of Nations.
4. Recognition of "Manchukuo."
5. Cooperation between Japan, China, and "Manchukuo" in the creation of a Far Eastern political and economic bloc.
6. Demilitarization of the Maritime Provinces of Kwangtung, Fukien, Chekiang, Kiangsu, and Shantung.
7. Establishment of through railway service between "Manchukuo" and the Yangtze Valley with the management of all Chinese railways in North China coordinated under the South Manchuria Railway.
8. Discontinuance of anti-Japanese activities throughout China.
9. Abolition of the office of Generalissimo with all military power centered in the Minister of War under General Ho Ying-chin.
10. Dismissal of General Chang Hsueh-liang and the withdrawal of his troops from the Northwest.
11. Full Sino-Japanese cooperation in the suppression of communism in China.
12. Japanese observers are to have the right of attending the Kuomintang Congress to see whether China is acting in good faith; and,
13. Complete abandonment of China's dependence on American or European support in politics, economics and government."

Repeated to Peiping and mailed to the Ambassador at Shanghai.

PECK

793.94/7323 : Telegram

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

SHANGHAI, October 25, 1935—noon.
[Received October 26—7 a. m.[21]]

623. 1. From the Ambassador. According to the Japanese informant referred to in Shanghai's telegram 285, June 6, noon, and according to an officer interrogator of the local Japanese Embassy whose information has been reliable in the past, there have been no new demands made by Japanese to the Chinese authorities, press reports to the contrary notwithstanding. They state that recent conferences in Tokyo resulted in the Navy, Army, and Foreign Office arriving at a unified China policy and that representatives of those three Ministries came to Shanghai solely for the purpose of reporting this to their respective officers in China. They also say that the policy is abstract and general in its terminology. According to the second informant, the chief point of interest is agreement that there shall be an autonomous North China regime, which will not be detrimental to the interests of "Manchukuo." He said that if the National Government opposes the establishment of this regime, however, an independent North China may result. In his opinion the significance of the unified policy is that the military and the diplomats are again on friendly terms for the first time since the divergence which resulted from the military's dissatisfaction with Hirota's Diet speeches of last winter and from the raising of the Legation to an Embassy. He said that press reports that officials of the three services have held a joint conference here were incorrect but that there had been drinking parties after the separate conferences in order to cement their new friendly relations. The second informant said that the only basis for reports of such demands was a statement recently made by Hirota to the Chinese Ambassador at Tokyo to the effect that Sino-Japanese relations could only be solved if (1) anti-Japanese activities in China were eradicated, (2) "de facto" relations with "Manchukuo" were established (he interpreted this as meaning primarily normal communications), and (3) the Red menace to North China were averted.

2. I am inclined toward the belief that the foregoing estimate of the situation is in general accurate. However, there is the possibility that the Japanese military officers in China will not be content to follow even so abstract a policy as that mentioned above. The struggle for the control of the Japanese Army in progress in Tokyo between the Araki immoderates and the Hayashi moderates, in which the latter are allegedly gaining ground gradually may cause the Japanese in

[21] Telegram in two sections.

China, who are chiefly immoderates, to take matters into their own hands before the position of their leaders in Tokyo is too greatly weakened by the opposing moderates. It is to be supposed that the military representative from Tokyo, Okamura, is not regarded very favorably by at least some of the Japanese military in China as he is allegedly one of Hayashi's moderates. It is extremely doubtful whether the unified policy will significantly affect the plans of the Japanese military with respect to China.

3. Most Japanese sources expect a new regime in North China in the near future. The present agrarian uprising in Hopei, which is reported in the press may be the beginning of this. The two informants mentioned above claim that [Japanese?] are now leaving the details of the new regime more or less to the Chinese concerned. The first mentioned of them believes that lack of money for development in North China may informally delay formation of a new regime.

4. These Japanese and a number of Chinese officials do not expect important developments in Central China during the next few months. However, the intentions of the Japanese military may still be regarded as an unknown quantity regardless of the unified policies.

5. Chiang Kai-shek is at present at his native place, Fenghua, allegedly sulking. This may be due to a failure to impress on the rest of the Government his views with regard to either his Japanese policy or his policies toward the Southwest. Johnson.

CUNNINGHAM

761.9315 Manchuria/20 : Telegram

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

Moscow, October 25, 1935—1 p. m.
[Received 1 : 45 p. m.]

459. Just before receiving your No. 250, October 23, 5 p. m.,[22] I had a long conversation with Stomoniakoff, Vice Commissar for Foreign Affairs in charge of Far Eastern Relations of the Soviet Union. He expressed complete confidence that the Japanese would not make any move against the Soviet Union in the near future. He stated that Japanese communications to the Soviet Foreign Office during the past week had been couched in a tone of unusual reasonableness and friendliness. He attributed this to an alleged decision of the Japanese Government to cultivate—momentarily—friendly relations with the Soviet Union. Outer Mongolia was not mentioned specifically but fell within the scope of Stomoniakoff's remarks and optimism.

[22] Not printed; it requested information.

Stomoniakoff alleged that on October 4th the Japanese Ministers of War, Navy, Foreign Affairs and Finance had reached definite agreement not only that Russia should be treated politely but that all possible pressure should be put upon China for the acceptance of certain demands. Stomoniakoff recited these demands in detail, referred to a "Japanese ultimatum" and said that he believed that Chiang Kai-shek would be unable to accept and would be compelled to fight. He finally stated that he expected events of the greatest importance in China shortly.

I discussed Stomoniakoff's statements with Dr. Yen, the Chinese Ambassador here. Yen said that he did not consider the situation nearly so critical as Stomoniakoff had indicated. He said that the "demands" recited by Stomoniakoff had been published in a Shanghai newspaper. (I, therefore, refrain from telegraphing them). He added that there had been no ultimatum and asserted that he had received a personal telegram from T. V. Soong 4 days ago which was not very pessimistic.

Yen said that he agreed with Stomoniakoff that Japanese activities during the next 6 months would be directed against China and not against the Soviet Union. Yen added that 2 days ago he had discussed the situation in Outer Mongolia with the chief expert of the Soviet Foreign Office and that they had agreed that no Japanese action against Outer Mongolia was to be expected this winter.

BULLITT

793.94/7322 : Telegram

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

NANKING, October 25, 1935—3 p. m.
[Received 3 : 42 p. m.]

38. My 37, October 25, noon.

1. Responsible official of the Chinese Foreign Office questioned by me this morning stated no demands of any sort had recently been made on China by the Japanese Foreign Office but he bitterly criticized the practice of the Japanese Army and its officers in China of presenting to individual high officials of the Chinese Government demands of the sort set forth in my telegram in reference. He said if Chinese-Japanese *rapprochement* were ever to be brought about, political matters of mutual interest must be handled exclusively by the two Governments through their Foreign Offices. While my informant was careful not to confirm or deny the textual accuracy of the demands reported in my October 25, noon, he accused the Japanese

Army of trying to create an autonomous state in North China and of other schemes designed to prohibit China from growing in unity and strength. The reported demands may very well have been advanced by Japanese military men to pro-Japanese Chinese officials and my informant may have been ignorant of them since he is not of the so-called pro-Japanese group. I will seek further verification.

Repeated to Peiping and mailed to the Ambassador at Shanghai.

PECK

893.00/13239 : Telegram

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

TIENTSIN, October 25, 1935—5 p. m.
[Received October 26—6:47 a. m.]

Informed Chinese in official circles here corroborate press report of capture on October 22nd of hsien city of Hsiangho 30 miles southeast of Peiping by armed mob of over 1,000 farmers who retain city. Same sources alleged that uprising was instigated by Haopen and leader of Tientsin plain-clothes uprising in 1931, and Pai Chien-wu, leader of abortive effort to seize Peiping in June, both of whom informants indicated are acting in Japanese interests. Japanese have refused to permit despatch of Chinese troops since Hsiangho is on Tangku Truce. It is reported that uprisings are spreading to five neighboring hsien and that handbills urging farmers to form autonomous governments have been distributed in other hsien. Chinese sources allege uprisings arranged by Japanese military to prove their contention that Province is being bled to support Nanking and that people desire autonomy.

2. On October 23, representative of Kwantung Army protested to Mayor of Tientsin against the continued activity of the Kuomintang and of members of Blue Shirt Society. Conference of local Chinese held yesterday morning referred matter to Nanking.

3. Local Chinese authorities yesterday ordered that until 27th, pedestrians on street after dark be searched for arms. Local Chinese official states similar searches have been going on in Peiping for 3 days.

4. An official of Municipal Government states that Chinese here expect any tightening of European situations to be promptly followed by Japanese action to separate Hupei from China and that farm revolts and protests from Japanese military are in anticipation of the opportunity for such action. Copy mailed to Peiping.

CALDWELL

761.93/1562

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

No. 982 Moscow, October 26, 1935.
[Received November 9.]

SIR: I have the honor to report certain facts in connection with the rumor emanating from Tokyo on September 24, 1935, to the effect that a soviet government had been set up in Sinkiang.

I have ascertained that this story was based on a telegram from Sakoh, Japanese Counselor of Embassy in Moscow, in which he repeated statements made to him by an informant whom he considered reliable. Sakoh has stated to a member of the staff of this Mission that he knows now that his information was totally false and has so informed his government.

I discussed this subject also with the Chinese Ambassador in Moscow, Doctor Yen, who has just caused an investigation of the situation in Sinkiang to be made by the Chinese Military Attaché in Moscow. The Military Attaché spent two months travelling from one end of Sinkiang to the other and reported, on returning to Moscow ten days ago, that there was no trace whatsoever of Bolshevism in Sinkiang. He reported also that the present Chairman of the Provincial Council, in spite of his Russian guard of soldiers, is a thoroughly patriotic Chinese.

Doctor Yen stated further that one of the leading Chinese generals from Sinkiang had arrived in Moscow last week for medical treatment and that his reports confirmed the statements recorded above.

Doctor Yen said that it was true that the influence of the Russian Revolution was being felt to such an extent that it was now necessary to admit a few Mohammedans to official posts.

Doctor Yen expressed the opinion that the reports of the Chinese military men were probably "too optimistic" but added that he had no evidence on which to base this judgment.

Respectfully yours, WILLIAM C. BULLITT

761.94/856 : Telegram

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

Moscow, October 27, 1935—9 a.m.
[Received October 27—4 : 53 a.m.]

463. My telegram No. 459, October 25, 1 p.m. Dr. Yen, Chinese Ambassador, last night informed me in the utmost confidence that

he had just received a most secret communication from China saying that the Japanese Government was bringing pressure of most urgent nature on the Chinese Government with a view to obtaining support of the Chinese Government for an attack on the Soviet Union.

BULLITT

893.00/13243 : Telegram

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

PEIPING, October 28, 1935—3 p. m.
[Received October 28—9:45 a. m.]

98. Embassy's 71, October 17, 5 p. m. Embassy's despatch No. 56, October 25th,[23] reports outbreak on October 21 of peasant disorder in the district of Hsiangho about 30 miles east of Peiping on the border of the demilitarized zone. Arising nominally out of peasant resistance to the imposition of a land tax increase the disorder now appears to have been fomented by disgruntled elements working behind the scenes. The peasants occupied the district town on October 22, set up a new administration (the magistrate had fled) and have thus far rebuffed Provincial Government's efforts at mediation. The situation is complicated by the fact that Provincial troops which subsequently were dispatched had to be recalled because of the fear that complications might result from their being sent to Hsiangho on the boundary of the demilitarized zone.

There exists a possibility that the affair may take on graver aspects and that it may prove to be the nucleus of a more widespread movement in the demilitarized zone. Japanese press reports consistently announce that the "independence movement of North China" is spreading but reports that other towns in the demilitarized zone have joined the movement have thus far proved unfounded. The situation at Hsiangho is reported quiet and peace and order are being maintained. Should the movement show signs of spreading the Department will be promptly informed.

Repeated to Nanking, to Tokyo and Tientsin by mail.

LOCKHART

---

[23] Not printed.

793.94/7436

The Consul General at Mukden (Ballantine) to the Ambassador in China (Johnson)[24]

No. 167 MUKDEN, October 28, 1935.

SIR: I have the honor to refer to a leading article in the October 19 issue of the *Manmo Hyoron* (Manchuria Mongolia Review), a Japanese language weekly, entitled "Fundamental Considerations on China and the North China Question", which deals with the recent Tada interview and the pamphlet which appeared on that occasion.

The belief is expressed that the North China question is not merely a matter of "securing the life line of Japan's national defense"; it represents the application of Japan's fundamental continental policy, which

(1) provides for the expansion (not necessarily in a territorial sense) of Japan
(2) and for the liberation of oppressed peoples,
(3) accords them security of livelihood,
(4) maintains the self-respect of all peoples and their independence.
(5) which will enable them to cooperate in attaining friendly relations with Japan,
(6) and render possible the establishment of political, economic and even military relations of inseparability with the Empire.

The article concludes from its examination of the Tada pamphlet that Japan will use its efforts to make common cause with the Chinese people, first in North China, to promote the security and peace of Japanese residents and the Chinese people. The view is expressed that conditions in North China are favorable to a speedy realization of this aim and that this movement, which had its beginnings with the "Manchuria Incident" of 1931, will be gradually extended from North China southwards eventually to include all China, and it is anticipated that if the people of North China make a beginning of considering the North China question sympathetically they may bring it to the fore at the plenary session of the Central Executive and Supervisory Committees in Nanking next month.

Those who do not appreciate how one-sided and even naive the Japanese can sometimes be in their outlook on foreign affairs and who are unfamiliar with current Japanese comment may not be inclined to take the foregoing observations seriously, but it is believed that they must be taken into account in any appraisal of the moral support which the Empire's present so-called "Continental Policy" enjoys among the Japanese public.

[24] Copy transmitted to the Department by the Consul General in his unnumbered despatch of October 28; received November 26.

In many of its aspects the present period in Japan has its counterpart in moments in the history of other peoples when a consciousness of national destiny or religious fervor or both spurred them on to a career of conquest and colonization. Although the Japanese have never manifested as a people a zeal for religious proselytizing, there is in their nature a strong vein of idealism or sentimentalism, and they are capable of concentrating collectively upon a given objective with an intensity of purpose which produces the same effect as religious fanaticism. It is not to be doubted that a large number among the articulate elements are now sincerely convinced that it is their mission as a nation to deliver the Chinese people from the tyranny of warlords, and the menace of communism, and that freed from these the Chinese will eventually see the advantage of joining hands with Japan in an economic alliance which would establish the mutual prosperity of the two nations on a permanent basis.

The Japanese attitude towards any disposition on the part of Chinese to reject this creed is not dissimilar to that which used generally to prevail in the Occident on religious questions before the advent of the present era of tolerance. So convinced are the Japanese that theirs is the true faith that they ascribe the perversity of Chinese to ignorance, to their being misled by their leaders, and to the malign influence of Western powers. It matters not therefore if the Chinese as yet refuse to cooperate, the end seems so desirable to the Japanese that they are determined to go ahead, and they justify any means they may be called upon to employ.

There are not a few Japanese who have made sacrifices to come to Manchuria for the purpose of serving the ideal of bringing about a new order here. Unfortunately, among the idealists in positions to influence governmental policy and action are many fanatics—men with fixed ideas and narrow vision who insist upon cutting the Manchurian cloth to fit the Japanese pattern, and who, oblivious to the differences in racial temperament, conceive of what is good for the Chinese in terms of what has been found good for Japanese. They are impatient at the non-cooperative attitude of the Chinese, are disposed to adopt inquisitorial methods in seeking out suspects of heresy against the doctrine of the "Kingly Way" and are responsible for a policy of ruthless suppression of the slightest opposition to the present regime.

Another detriment to conciliation with the native population, which must be the basis of any real and permanent stability and progress, is the host of Japanese petty officials, chiefly among the *gendarmerie* and civilian police, who in their contacts with the Chinese are generally unsympathetic, arrogant, arbitrary and even brutal. Then too, among the civilian Japanese community, there is an undue proportion of the most lawless elements in Japan: professional thugs, petty swindlers,

narcotic peddlers and other adventurers, who do much to discredit the Empire with the Chinese. Furthermore, there is a disposition among Japanese residents as a whole to regard Manchuria as theirs, having bought it at a heavy sacrifice of blood and treasure, and to expect that their interests must be given preferment over those of the Chinese. The more liberal and fair minded among the Japanese leaders themselves recognize and deplore the attitude and actions of so many of their countrymen, but so far they have been powerless to counteract it effectively.

It is galling to Chinese pride to witness the rapid tightening by the Japanese of their control over the country, but the sensible ones consider it wise to hold their peace over the facetious Japanese assertion that "Manchukuo" was created by the spontaneous will of thirty million people, for fear is the dominating note in the Chinese feeling towards the Japanese. Thus the breach between the two peoples arising from natural antipathies is widening in Manchuria as a result of closer contact.

The thought envisaged by some alarmists that Japan will some day lead the Orient to challenge the supremacy of the Occident is no more than a chimera. It takes more than the possession of a common script and racial similarity to make for mutual understanding and sympathy. The Japanese have so far failed to reveal the moral qualities which are likely to gain the respect of the Chinese people; their methods have rather aroused to the full the remarkable Chinese capacity for opposition through passive non-cooperation and obstructionary tactics.

The prophets of the Japanese "Continental Policy" disclaim any desire for conquest, but it is difficult to conceive of its making headway on account of Chinese opposition except through the gaining by Japan of control of the political machinery in China. The relationship of "inseparability" between "Manchukuo" and Japan exists only through the presence here of the Kwantung Army. Another "Manchukuo" may be created in North China or one embracing all China, and the application of force may not be necessary for this purpose so long as there is a presence of force with a will to apply it. In any event, any regime that may be set up in China having relations of "inseparability" with Japan will be established and maintained by the will of Japan and not of the Chinese people.

While a temporary military domination of a part or the whole of China by Japan is by no means a remote possibility, unless in the meantime external factors intervene or the force of the Japanese thrust exhausts itself against the solid wall of Chinese passive resistance, it is unlikely that such an occupation would last long. Even in Manchuria, even apart from its relations with China Proper and possible

complications with Soviet Russia, it is difficult to conceive of 30,000,000 Chinese remaining permanently under the subjection of another race no more virile and possessing no greater inherent capacity either mental or moral. There have been many instances in history where a people having a temporary advantage because of superior political cohesion or of better preparedness for war have been able to gain for a time ascendancy over others, but only races which are weak in numbers or inferior in stamina or intellect have been held permanently in subjection. Many observers agree that man to man the Chinese is at least the equal of the Japanese in inherent intelligence and decidedly superior in self-reliance. The capacity which the Japanese have developed for organized and coordinated activity has given them a temporary advantage. If they are successful in implanting their organization in Manchuria, there is no reason why the Chinese who form a part of it will not eventually be able to take a lesson from the Japanese book. While the Chinese are undoubtedly more easy going and less resolute than the Japanese, their desire to rid themselves of Japanese domination may furnish them with the determination to learn their lesson well and put it into practice.

Were it not for the blundering methods adopted by the Japanese in their march of progress, arising from a blind disregard of the point of view of others and a disposition to take themselves too seriously, there is no apparent reason why the two peoples should not live side by side harmoniously; in fact, they have much to gain by a closer partnership, but what the Japanese fail to appreciate is that to be successful the partnership must be on a basis of equality. Admittedly the Chinese can gain much from emulating the innate orderliness and intensity of purpose of the Japanese; this would enable them to put their national house in order. On the other hand, the Japanese would do well to temper their dourness of character with the urbanity of the Chinese and develop their personality with some of the Chinese individuality.

A harmonious fusion is not likely to result under Japanese hegemony; but dark as the picture now looks for the stability and peace of the Far East, the temporary political domination of Chinese populations by Japan may result in their being able subsequently to assert their self-determination more effectively, and when they succeed in doing this it will mean the discrediting in Japan of its military clique. In this way the emancipation of both peoples may be brought about.

The eventual adjustment of the two races to one another must inevitably be a long process, which, however, can only be retarded or temporarily suspended by the intervention of third parties. In relation to Japan such intervention, not necessarily in a military sense, would only serve to stiffen the resolve to go ahead, since the

Japanese have a tendency when confronted with foreign opposition to sink their internal differences and present a united front. In relation to China intervention would serve only to confirm the Chinese in their belief in the efficacy of their traditional policy of "controlling barbarians with barbarians". Not until the Chinese realize that their hope of national salvation lies only in their own efforts and that national destruction will be the inevitable result of their continuing to shirk their responsibility towards the maintenance of political integrity will it be possible to expect their regeneration.

Respectfully yours, J. W. BALLANTINE

793.94/7326 : Telegram

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

NANKING, October 29, 1935—4 p. m.
[Received October 29—1:45 p. m.]

39. My October 25, 3 p. m.

1. On October 28, 4 p. m. Wang Ching-wei informed me confidentially in reply to my inquiry that the Chinese Government had no reason to expect an early crisis in relations with Japan but that it had no knowledge of the nature of the new joint policy recently adopted by the Japanese Ministries of Foreign Affairs, War, Navy and Finance and that independent action by one of them seemed to him still possible. He said the Chinese Government would continue to pursue the policy it had announced to the Japanese Government last February of conciliation in reference to all outstanding questions exclusive of Manchuria and not involving cession of territory.

2. An official of the Foreign Office hitherto habitually reticent discussed with two American newspaper representatives on October 28 the possibility that China might temporarily have to abandon the North and the whole coast to Japan.

3. Although the Japanese question seems to create much foreboding in Chinese official circles the general ignorance of Japan's intentions makes crystallization of sentiment in regard to policy extremely difficult.

Repeated to Peiping and mailed to the Ambassador at Shanghai.

PECK

793.94/7327 : Telegram

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

PEIPING, October 30, 1935—noon.
[Received October 30—9 : 30 a. m.]

105. A warning issued in the name of General Tada, Commander of Japanese troops in North China, and the Japanese Consul General in Tientsin was communicated in writing to General Chang Chen, Chairman of the Hopei Provincial Government, General Sung Cheh-yuan, garrison commander of Tientsin and Peiping, and the Mayors of Tientsin and Peiping on yesterday. The warning emphatically reminds the Chinese authorities of promises made some time ago to eliminate all anti-Japanese and anti-"Manchukuo" organizations such as the Tangpu and Blue Shirt Societies from the Peiping and Tientsin districts. It is charged that investigations conducted by the Japanese reveal that such organizations still exist under different names and in disguised forms and that they are still continuing their activities. The communication also charges the Chinese authorities with lack of sincerity and a failure to take adequate steps for the elimination of these organizations from North China. It is further alleged that the Chinese authorities seem to be encouraging these activities and that "such a state of affairs is contrary to the various agreements made in connection with North China and may bring about more complicated and difficult situation". The demand for prompt and vigorous measures for the elimination of all anti-Japanese and anti-"Manchukuo" organizations and the cessation of all their activities in North China is repeated.

The situation at Hsiangho referred to in the Embassy's 98, October 28, 3 p. m. is reported to have been amicably settled but this awaits confirmation.

The North China garrison will carry out maneuvers between November 4 and 7 along the railway between Peiping and Tientsin with sham battles in the vicinity of Peiping and Tientsin. These apparently are the regular autumn maneuvers.

By mail to Tokyo and Shanghai.

LOCKHART

793.94/7329 : Telegram

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

SHANGHAI, October 30, 1935—1 p. m.
[Received 2 : 30 p. m.]

615. Referring to my 579, October 7, 5 p. m. Main body of Chinese economic inquiry group returned to Shanghai yesterday when Yu

Tso-ting, chairman of General Chamber of Commerce of Shanghai, told press Japan's lack of agricultural and natural resources and increasing industrialization may be taken into consideration as a prime basis for Sino-Japanese trade association. Will probably proceed along lines similar to Chinese-American Trade Council.

Repeated to Peiping, mailed to Nanking.

CUNNINGHAM

793.94/7330 : Telegram

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

NANKING, October 30, 1935—3 p. m.
[Received October 30—2:20 p. m]

40. My 39, October 29, 4 p. m.

1. Among prominent leaders who have recently come to Nanking are Chiang Kai-shek; Chang Hsueh-liang; Yen Hsi-shan; Chang Chun, Chairman of Hupeh Province, and Shao Li-tze, Provincial Chairman of Shensi.

2. Press despatches from Tientsin October 29 state that the Japanese Consul General there has written the Chinese local authorities alleging non-fulfillment of Chinese promises to suppress anti-Japanese and anti-"Manchukuo" organizations and reiterating Japanese demands for suppression and that the Japanese military have issued lengthy public statement in the same vein.

3. Press despatches report that on the afternoon of October 28 (the moment Wang Ching-wei was telling me that the nature of the new Japanese policy toward China was unknown to the Chinese Government) the Japanese Minister for Foreign Affairs was dictating a "three-point program" to the Chinese Ambassador in Tokyo involving a genuine effort by the Chinese Government to improve relations and cooperation between [*with?*] Japan and "Manchukuo" in the economic development of North China and opposition to the Communists.

4. Appearances indicate that the present assemblage in Nanking will discuss whether the time has come to modify the policy of conciliation of Japan or to extend it to cooperation with "Manchukuo" with special reference to North China problems.

Repeated to Peiping and mailed to Shanghai for the Ambassador.

PECK

793.94/7331 : Telegram

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

PEIPING, October 31, 1935—2 p. m.
[Received 4:43 p. m.]

108. Embassy's 105, October 30, noon. Information obtained from various foreign and China sources appears to justify the following observations: the mooted Sino-Japanese economic cooperation in North China, indubitably a Japanese desideratum, would be dependent for its success on financial and economic stability in the area involved. The weakness of the financial structure in China and the incursion of the Chinese Communists into the northwest constitute threats to that stability creating an extraordinary risk for any economic enterprise, and to achieve stability Japan may feel that it is necessary to change the political structure of the five North China Provinces. As intimated after the Dairen conference of mid-October, Japan would prefer to reach an arrangement satisfactory to itself by agreement with the constituted authorities at Nanking. This may well mean that the *démarche* described in the Embassy's 105, October 30, noon, is probably intended to force a decision favorable to Japan at the forthcoming session of the Central Executive Committee. It is contended in some quarters that Chiang Kai-shek's policy, if he can enforce it upon the Nanking Government, provides for a continuation of the present policy of conciliation towards Japan. It is further contended that this would lead ultimately to a severance of financial relations between North China and the rest of the country and would result in the end in Sino-Japanese military cooperation against the communist forces in Northwest China. An unconfirmed report is now in circulation to the effect that the three chief figures of North China, Sung Che-yuan, Han Fu-chu and Yen Hsi-shan, with the acquiescence of the Nanking Government have already practically come to an agreement with the Japanese which will result in the establishment of a semi-autonomous political regime in the North to implant the Japanese program. [However, ?] the above is wholly lacking in confirmation.

There are political observers who profess to believe that a policy directly opposite to the above is now taking on a more definite form. This group holds that an important section of Chinese Government opinion both popular and official has hardened around the belief that the time has come when China must decide definitely between submission and armed resistance and that the latter is to be preferred

even with defeat rather than the humiliation of the former. Whether this feeling will spread would seem to depend at least to some extent on the course of events at the forthcoming meeting of the Central Executive Committee.

The only certain development is that the Japanese military and civil officials are now working together as a unit as evidenced by the demands above mentioned. This undoubtedly is a part of the so-called new policy which the Japanese recently discussed at Dairen and Shanghai but whether the plan of concerted action will continue to be [pushed?] is somewhat problematical.

Repeated to Nanking. By mail to Tokyo and Shanghai. (Note: copies or paraphrases of all telegrams are sent to Nanking by mail unless otherwise indicated.)

LOCKHART

CHAPTER V: NOVEMBER 1–DECEMBER 31, 1935

Further Japanese military pressure to dominate North China and formulation of united Japanese program for China; Generalissimo Chiang's intervention in local conversations with Japanese military in North China; announcement of "autonomous" regime in demilitarized area of east Hopei, November 25; failure of Outer Mongolia-"Manchoukuo" border negotiations; protest by China to Japan against interference in Chinese domestic affairs; statement by Secretary Hull on so-called autonomy movement in North China, December 5; assumption of Presidency of Executive Yuan by Generalissimo Chiang, December 7; arrival of Outer Mongolian Prime Minister in Moscow, December 12; Japanese acceptance of Chinese proposal for diplomatic approach to readjustment of mutual relations

793.94/7333 : Telegram

The Second Secretary of Embassy in China (Atcheson) to the Secretary of State

NANKING, November 1, 1935—10 a. m.
[Received 2:15 p. m.]

43. My 41, October 31, noon.[25]

1. On October 31, 4 p. m. Counselor Peck was told by one of the more practically minded responsible officials of the Chinese Government that although the Government knows the general nature of the

[25] Not printed.

new "three-point program" of the Japanese Government for the conduct of Chinese-Japanese relations, details will not be known until the return in a few days of the Chinese Ambassador in Tokyo. The proposal as thus explained will be studied by a few of the most important leaders and the informant was sanguine that a middle course could be devised which would forestall both drastic action by Japan and political attacks on the Government by its critics although admitting that if the Japanese are too insistent this policy of evasion (officially known as "conciliation") may not be successful. Informant was hopeful that a crisis in relations with Japan can be averted. As proof of this belief he said that there was talk of postponing the forthcoming Congress until November 20 whereas if a crisis were thought to be impending the Government would try to conclude these proceedings as quickly as possible.

2. Informant stigmatized the alleged Japanese idealistic desire to rescue the oppressed population of China as a mere political hoax although it might be believed in by some of the younger Japanese military attachés and he compared it with the announced ambition of Italy to civilize Ethiopia.

3. Informant did not deny severe financial straits of the Chinese Government but thought that if an international crisis could be averted the Government could tide over its difficulties. He did deny that conscious inflation of the currency had begun and attributed the fall in Chinese currency and bonds to other causes particularly use of threatened political crisis by interested manipulators.

4. He said that relations with Canton would continue to be amicable since the party had decided not to insist on the abolition at this time of the boycott, Political Council and Central Executive Committee.

To Tokyo by mail.

ATCHESON

893.00/13248 : Telegram

The Second Secretary of Embassy in China (Atcheson) to the Secretary of State

NANKING, November 1, 1935—noon.
[Received 12:40 p. m.]

45. 1. An attempt was made this morning to assassinate Wang Ching-wei, Chiang Kai-shek and other leaders. The official version

of the incident is that immediately following the taking of a group photograph of the plenary session, delegates gathered before the Central Party Headquarters, three Chinese stepped forward from among the onlookers and fired at the delegates, wounding Wang himself in the left cheek, the left arm and one shot going through his back into the left lung. Guards shot down one of the gunmen but did not kill him and the other two fled into the party headquarters and at this hour have not yet surrendered. Wang was taken to the Central Hospital, his condition being described as "not critical".

2. I am reliably informed that Chiang completely escaped injury but Chen Chung-ming, Vice Minister of Railways, received four bullet wounds and Kan Nai-kuang, formerly Vice and Acting Minister of the Interior, who has recently been attached to Chiang's Wuchang field headquarters, and a certain Chang Hsi were also wounded.[26]

By mail to Tokyo.

ATCHESON

893.00/13248 : Telegram

The Acting Secretary of State to the Second Secretary of Embassy in China (Atcheson), at Nanking

WASHINGTON, November 1, 1935—5 p. m.

15. Your 45, November 1, noon.

1. Please convey to the Acting Minister for Foreign Affairs a message from the Acting Secretary of State as follows:

"I have been shocked by the reports of the attempt upon your life and upon the lives of other officials of the Chinese Government, and extend an expression of my sympathy and of my hope for your and their early and complete recovery."

2. Department assumes that the Embassy has already expressed to the Chinese Foreign Office in appropriate terms and without referring to the authorship of the outrage its sympathy.

PHILLIPS

---

[26] In telegram No. 46, November 1, 4 p. m., Mr. Atcheson stated that reports of the wounding of Chen, Kan, and Chang Chi were incorrect (893.00/13250).

793.94/7343 : Telegram

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

PEIPING, November 2, 1935—noon.
[Received 9 : 55 p. m.]

113. Embassy's 109, October 31, 5 p. m.[27] After the *démarche* of last June the Kuomintang special training section to which the Japanese had objected was, by request, metamorphosed by the Chinese into the fourth section of the Bureau of Public Safety with personnel practically unchanged. The Embassy is confidentially and reliably informed that yesterday, in accordance with the Japanese demand that action be taken against secret anti-Japanese organizations, Sung Cheyuan caused the arrest of Wu Kuang-chun, chief of the aforementioned section, together with over 10 others of the section. The names of the arrested are said to have been included in a letter furnished Sung by the Japanese. Japanese gendarmes in Tientsin are alleged to have recently made arrests on their own initiative.

Rengo reports "an ominous atmosphere presaging a political change in Peiping". Lieutenant Colonel Ishii of the Tientsin-Japanese garrison is reported in yesterday's *North China Star* to have expressed the fear that Tientsin may become "another Mukden" if present events in North China continue their present trend. It is claimed by the Japanese military that they have in their possession a large accumulation of documentary evidence proving existence of secret societies engaged in anti-Japanese activities. Rengo despatch of October 31 from Hsinking states that officials of the Kwantung Army have indicated that the Kwantung Army may be able to attempt a solution of North China questions "once and for all" in conjunction with the Japanese North China garrison.

The Hsiangho incident, mentioned in Embassy's 105, October 30, noon, has not been definitely settled but it is understood that Paoantui will, with the consent of the Japanese, enter the city and take over control. There has been no spread of the movement.

The Japanese North China garrison maneuvers, referred to in the Embassy's 105, October 30, noon, will include Fengtai and Changsintien, a town on the Peiping-Hankow Railway immediate[ly] south of Peiping.

Repeated to Nanking, to Tokyo and Tientsin by mail.

LOCKHART

[27] Not printed.

893.01 Outer Mongolia/33 : Telegram

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

[Extract]

Moscow, November 2, 1935—6 p. m.
[Received November 2—3 : 15 p. m.]

472. In the course of a brief conversation today Litvinov said that he was absolutely certain that the Japanese were not contemplating any immediate advance against Outer Mongolia. He asserted that he believed the Japanese intended now to make every effort to dominate North and Central China. He said that he believed China would be compelled to fight in the near future or be extinguished as an independent nation.

. . . . . .

BULLITT

793.94/7342 : Telegram

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

PEIPING, November 1 [3], 1935—12 noon.
[Received November 3—7 a. m.]

114. Embassy's 105, October 30, noon, and 113, November 2, noon. It is stated on seemingly good authority that General Shang Chen, General Sung Cheh-yuan and the Peiping branch of the Political Council have replied to the Japanese *démarche*, under instructions from Ho Ying-chin, with an assurance that the matter covered by the complaint would be satisfactorily adjusted; that the Council has caused the arrest of some suspects, as stated in Embassy's 113, November 2, noon, and has issued strict instructions to suppress all anti-Japanese activities. Press reports betray that a considerable number of "Blue Shirts" actually left Peiping for the south within the last few days.

Repeated to Nanking, by mail to Tokyo and Tientsin.

LOCKHART

793.94/7344 : Telegram

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

PEIPING, November 4, 1935—3 p. m.
[Received 7 : 20 p. m.]

116. Embassy's 114, November 3, noon. The Executive Yuan yesterday accepted the resignation of Yuan Liang from the Peiping Mayoralty and Sung Che-yuan has become Acting Mayor. This is almost certainly a direct result of the Japanese *démarche* described in the Embassy's 105, October 30, noon. Mayor Yuan has notified the Embassy that he is leaving Peiping on the 3 : 05 p. m. train today.

A report is now in circulation that the Hsiangho affair may possibly be maneuvered so as to discredit Shang Chen and enhance the prestige of Sung Che-yuan. If this line of action is followed Shang will probably be the next to go.

Repeated to Nanking, by mail to Tokyo and Tientsin.

LOCKHART

793.94/7346 : Telegram

The Second Secretary of Embassy in China (Atcheson) to the Secretary of State

NANKING, November 5, 1935—9 a. m.
[Received 9 : 35 a. m.]

55. 1. Suma of the Japanese Embassy who has just returned from Peiping and Tientsin stated to me yesterday afternoon that the wishes of the Japanese concerning North China are very simple and in accordance with the policy which Japan has long enunciated. "No one can deny", he said, "that a special administration must be set up" there because that area is contiguous to "Manchukuo" and has not recognized "Manchukuo". What the Japanese want, he stated, is some kind of special administration which will not "necessarily" be independent or autonomous but which will give "material recognition" to "Manchukuo" by working with "Manchukuo". He went on to say that Chiang Kai-shek exemplified the Chinese racial characteristic of evasiveness in dealing with Japan but other leaders including Wang Ching-wei and H. H. Kung realized the necessity for this

development in the North. They had admitted so to him but plead the difficulty, which was real, of justifying themselves in the eyes of the Chinese people if they should move at once as the Japanese desired. The problem of Japanese diplomacy is accordingly to effect a lessening of the gap between the large majority of the Chinese people and that of the intelligent Chinese officials. He added that the Japanese Foreign and War Offices and all departments of the Japanese Government are now showing a united front in the policy toward China.

2. While the Chinese Government appears to be fearful of further moves by the Japanese in connection with their recent demands in North China a certain apathy is noticeable among individual Chinese officials here. The only statement I have heard from the Foreign Office concerning the matter is that it is being handled by the local authorities in Peiping and Tientsin.

3. Paraphrase to the Ambassador at Shanghai.

ATCHESON

793.94/7347 : Telegram

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

PEIPING, November 6, 1935—5 p. m.
[Received November 6—1 : 50 p. m.]

121. Embassy's 116, November 4, 3 p. m. Takahashi yesterday admitted to a local press representative that Japanese gendarmes have arrested various Chinese in Peiping because of alleged connection of the latter with the Blue Shirt Society. Takahashi also stated that these arrests were made not with the permission but "with the understanding of the Chinese authorities". The arrested persons are said to be under detention at the Japanese *gendarmerie* headquarters for examination. The Chinese authorities it is stated have also made some arrests. Among those arrested is a brother of ex-mayor Yuan, according to today's press.

Takahashi further said that Yuan had not resigned in compliance with a Japanese demand but because of the Japanese attack on him with regard to Blue Shirts and Tangpu members under him and that there had been no demand for the abolition of the Branch Military Council but that he considered the Council a superfluous organ.

Repeated Nanking, by mail to Tokyo.

LOCKHART

793.94/7473

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

SHANGHAI, November 6, 1935.
[Received December 4.]

SIR: I have the honor to summarize comment made during a conversation between a member of the Embassy and Dr. Hu Shih, noted Chinese intellectual, Mr. Loy Chang, Chinese head of the Chinese Customs Administration, and Mr. Lin Yutang, an intellectual of rapidly increasing reputation, with regard to the "probability" that the Chinese will in the near future take active military measures against the Japanese.

Dr. Hu Shih led the conversation, saying that it was "almost a probability" that the Chinese would resort in the near future to military action against the Japanese. (When he was asked to be more exact, he stated that in his opinion the chances were more than even that there would be warfare between the two countries within six months.) He regards as significant in this connection that part of the so-called Tada statement in which it is argued that General Chiang Kai-shek and the Kuomintang must go if Japanese Imperialism is not to fail. He also regards as significant the present visit of Marshall Feng Yu-hsiang from Shantung to Nanking and the allegedly impending visit of Marshal Li Tsung-jen from Kwangsi to Nanking for the reason that he believes that they would go to Nanking only if there were to be serious discussion of armed resistance against further Japanese aggression. Dr. Hu regards Marshal Feng as the man who could bring to a common line of action such northern generals as Han Fu-chu, Yen Hsi-shan, Fu Tso-yi. The reason for the belief of these three gentlemen that the Chinese may fight is summed up in the phrase, quoted by Mr. Lin Yutang, "when a dog is driven to the end of a blind alley he will turn and fight".

Dr. Hu Shih evidently felt it was necessary to attempt to reconcile his present view that China ought to fight with his well-known pacifist views. He said that he has always been a pacifist, is still one, was one of the few who urged a direct settlement between Chinese and Japanese shortly after the Mukden incident, and was the only Chinese who expressed approval in print of the conclusion by the Chinese authorities of the Tangku Truce of May 31, 1933. He feels now, however, that there is no hope of compromise with the Japanese and that the ambitions of the Japanese military leave for China no alternative but to fight for self-preservation. He added that heretofore he had felt that persons such as he, who would not be called upon

to bear arms in case of a conflict with Japan, should not urge a course which would bring suffering to many Chinese but that now the situation was so serious that he no longer held this view.

When Mr. Lin and Mr. Loy Chang showed an inclination to belittle what the Japanese military might do in case of an armed conflict, Dr. Hu Shih deplored such a view, stating that he believed that a Sino-Japanese war would result in the worst war of history as it would involve eventually other countries of the Pacific, adding that it would be one of the intentions of the Chinese to see that those countries did become involved. He also said that it should be realized that for some time the Chinese would be fighting alone against the Japanese, with the result that there would be appalling destruction of Chinese life and property. He regards as the best strategy attack against the Japanese as widespread as possible for the reason that an extended front would necessitate mobilization by Japan of all its forces and a greatly accelerated expenditure of armaments and money.

It was Mr. Lin's opinion that if General Chiang Kai-shek were to begin hostilities he would become the hero of the Chinese people, as General Tsai Ting-k'ai did when he led the Chinese forces which fought the Japanese in 1932 at Shanghai. The others also thought that China would be unified by armed resistance against the Japanese and that the Chinese would be good fighters because of their bitter hatred of the Japanese, a hatred made the more bitter because for so long they have had no outlet for expression of it.

These views, particularly those coming from Dr. Hu Shih, are interesting to me. Hu Shih is a leader of Chinese thought and has strong influence over many educated Chinese. I have noticed among other thinking Chinese a development of a similar viewpoint since the Japanese demands of May and June of this year with respect to Chahar and Hopei Provinces, which, together with subsequent activities of the Japanese military, have apparently convinced them of the futility of expecting any permanent relaxation of expansion by the Japanese military at the expense of China. There continues to be reason to believe that General Chiang Kai-shek is preparing in western China for eventual resistance against the Japanese, and I consider it a possibility that the Chinese may feel that there will soon be only two courses open to them: (1) complete submission to Japanese ambitions or (2) war. Before the Chinese could take any action, however, they might very probably be forestalled by some new measures on the part of the Japanese.

Respectfully yours, NELSON TRUSLER JOHNSON

793.94/7349 : Telegram

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

PEIPING, November 7, 1935—noon.
[Received November 7—6:50 a. m.]

122. Embassy's 121, November 6, 5 p. m. Chin Teh-chun, Acting Chairman of Chahar, has been appointed Mayor of Peiping, and Hsiao Chen-ying has been given the Chairmanship of Chahar. Both are close followers of Sung Che-yuan.

Repeated to Nanking.

LOCKHART

793.94/7350 : Telegram

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

PEIPING, November 9, 1935—noon.
[Received November 9—9:40 a. m.]

126. Embassy's 122, November 7, noon. The Embassy has received information from a reliable Chinese official confirming the existence of the list of suspects mentioned in the Embassy's 113, November 2, noon. The list is said to contain more than 130 names, including those of several outstanding figures in educational work and other important persons in North China. Many of the suspected persons have already left town, the Chinese have arrested a fairly large number and the Japanese themselves are reported to have arrested a considerable number. No person of outstanding importance has yet been arrested so far as known.

Various changes in personnel are expected to follow the induction of Chin Teh-chun as Mayor of Peiping. Chang Tzu-chung, one of Sung Che-yuan's divisional commanders, is to act as Chahar Chairman pending the formal induction of Hsiao Chen-ying; it is suggested that Hsiao probably will not enter upon his duties by reason of the fact that he as a civil official would be unable to exercise control over Sung's troops in the province.

Repeated to Nanking.

LOCKHART

793.94/7352 : Telegram

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

NANKING, November 9, 1935—2 p. m.
[Received 5 : 46 p. m.]

70. The second informant, mentioned in my telegram No. 68, November 9, 10 a. m.,[28] who meets frequently with the Japanese military, states that Shang Chen will shortly be replaced by Sung Cheyuan as Chairman of Hopei; that Sung's troops which are still in Chahar will move to Hopei, leaving Chahar a vacuum; that Sung will have Japanese financial and military advisers; that the result of all this will be practically to sever Hopei (and Chahar and Suiyuan as well) from the National Government and to place these provinces under virtual Japanese control; that the Japanese wish also to extend a similar control over Shantung but are finding it more difficult; and that also the creation of a single regime to include all five northern provinces is proving to be very difficult.

This informant views the present situation in Sino-Japanese relations as highly critical and is apprehensive that the Chinese authorities may refuse to accede to the next demands of the Japanese military. (Responsible Chinese are now saying that China must refuse to accept any further humiliating demands, as China has given in as long as it can, and that if the Japanese then, as a result, use force, the Chinese will have to resist. Although this viewpoint is gaining adherents rapidly, it is still difficult to believe that serious resistance will take place.)

By mail to Tokyo.

JOHNSON

793.94/7475

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

No. 38 NANKING, November 9, 1935.
[Received December 4.]

SIR: I have the honor to refer to my despatch of November 6, 1935, from Shanghai, reporting Dr. Hu Shih's views with regard to possible resistance to Japanese aggression, and to summarize comment on this subject made yesterday to a member of the Embassy by Dr. Chiang Monlin, Chancellor of the National Peking University, who is at present in Nanking and who is in close touch with China's principal political leaders.

(In this connection, it may be of interest first to report that Dr. Chiang stated that the Japanese Assistant Military Attaché at Peiping,

[28] *Post*, p. 640.

Major Takahashi, had included Dr. Chiang's name in the list of those Chinese which he had recently given to General Sung Che-yuan with the request that they be arrested, that General Sung had sent a private messenger to Dr. Chiang to warn him to leave before arrest, but that Dr. Chiang intends to return to Peiping within a few days and to remain there. He expressed the belief that he will not be arrested but that, if he is, it will injure the prestige of the Japanese military considerably in Tokyo and elsewhere. He said that Dr. Hu Shih's name was not on the list.)

In speaking of possible resistance to the Japanese, Dr. Chiang, who had an hour or two before been in conversation with General Chiang Kai-shek, said that China has now given in to the Japanese to the limit and has decided that it will refuse to accede to any Japanese demands which may be presented in the future (unless they are of a minor and unimportant nature), thereby putting the Japanese military in the position of having to decide whether they will fight or not. Dr. Chiang stated that the Chinese are preparing for resistance to the Japanese in case the Japanese force them to fight; for example, there are now 100,000 Chinese troops in Kiangsu and Chekiang Provinces. He expressed the opinion that the Chinese soldiers would fight well because of their bitter hatred of Japan and that the Chinese are equal militarily to the Japanese except in airplanes and tanks. He stated that Generals Feng Yu-hsiang and Yen Hsi-shan, now in Nanking, will not return to the north but will stay in central China to participate in resistance and that the pending arrival of an important Southwestern leader (not General Li Tsung-jen but Dr. Tsou Lu, President of the Sun Yat Sen University at Canton) shows that the Southwest will probably unite with General Chiang Kai-shek against the Japanese.

Respectfully yours, NELSON TRUSLER JOHNSON

793.94/7355 : Telegram

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

NANKING, November 11, 1935—2 p. m.
[Received November 11—11 : 10 a. m.]

72. Peiping's 128, November 10, 9 [*10*] a. m.[29] Before [Chiang's] departure from Tokyo Hirota had a long conversation with Chiang Tso-pin[30] in the course of which he outlined Japan's policy toward China as covering three points.

---

[29] Not printed.
[30] Chinese Ambassador in Japan.

1. Sino-Japanese alliance against spread of communism.
2. Abandonment by China of policy of playing one barbarian tribe against another.
3. *De facto* recognition of "Manchukuo," immediate settlement outstanding issues between "Manchukuo" and China and establishment of economic cooperation between "Manchukuo," Japan and China.

I am informed Japanese Ambassador is pressing for Chinese consent to these three desiderata.

Locally, Japanese demanded resignation Mayor Yuan Liang at Peiping, the abolishment of the Branch Military Council at Peiping, and the immediate dissolution in North China of so-called Blue Shirt activities.

Desire for alliance is aimed at Russia with particular reference to Inner Mongolia and if accomplished would give Chinese consent to use of Japanese forces in that area in cooperation with Chinese anticommunist forces. Point number 2 is intended to place China completely under domination of Japan in all matters relating to foreign policy and finances.

Point number 3 if accomplished would I understand open China by way of the North for Japanese economic and commercial penetration on a preferred basis.

With reference to local demands, Yuan Liang took the hint and resigned. With reference to Blue Shirt activities, Japanese military informed Sung Che-yuan that if he did not carry out arrests they would act on their own. Japanese have begun arrests of persons on proscribed list. With reference to abolishment of Branch Military Council, Sung Che-yuan is reported to have informed the Japanese that as the Branch Military Council is under National Government he is without power in the matter and that he must protect it by force if the Japanese attack it.

Chinese attitude toward above [is] subject of discussion here. There is prevalent a feeling of discouragement and desperation which may lead to armed resistance. Chinese have been told, however, that the Japanese do not intend to take drastic action but if desiderata not conceded the Chinese may expect difficulties such as autonomous movements fostered by the Japanese which would lead to ultimate break-down of National Government's power to collect revenues in areas affected.

Repeated to Peiping; to Tokyo by mail.

JOHNSON

792998—53——33

793.94/7358 : Telegram

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

PEIPING, November 12, 1935—5 p. m.
[Received November 12—12:25 p. m.]

133. Embassy's 129, November 10, noon.[32]

1. It is authoritatively stated that arrests by Japanese military authorities of anti-Japan agitators have now ceased.

2. According to a Reuter's report Sung Cheh-yuan has sent an urgent telegram to Fifth Kuomintang Congress strongly recommending immediate ending of period of political tutelage. He urges that the people be permitted to participate in the Government and closes his appeal with the following: "I urge the Congress to make a courageous decision in this matter and to liquidate the period of political tutelage immediately and initiate preparations for the establishment of a constitutional government."

3. General Ishime Matsui, described as the China expert on the Japanese Supreme War Council, arrived in Tientsin yesterday. General Doihara is still at Tientsin where it is stated conferences are continuing. According to reports from Tientsin General Sung and other important Japanese officials are expected to go to Tsinanfu in a day or two to visit General Han Fu-chu.

4. Reports are current that General Sung Cheh-yuan will shortly be offered the post of Pacification Commissioner for Hopei and Chahar with greatly enlarged powers.

Repeated to Nanking. By mail to Tokyo.

LOCKHART

893.102S/1368

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

No. 30 WASHINGTON, November 12, 1935.

SIR: Referring to the Legation's despatch No. 3757 of August 20, 1935,[32] and to previous correspondence in regard to the Shanghai Defense Scheme, the Department concurs in the opinion expressed by you that no useful purpose would be served by proceeding further toward obtaining the revision of Part II, Paragraph 4, of the Defense Scheme as suggested by the Department.

Very truly yours, For the Secretary of State:
WILLIAM PHILLIPS

[32] Not printed.

793.94/7476

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

No. 72 PEIPING, November 12, 1935.
[Received December 4.]

SIR: I have the honor to refer to the Embassy's despatch No. 15 of October 4, 1935,[33] with reference to current Chinese and Japanese opinion regarding Sino-Japanese relations, and to enclose for the information of the Department a copy of despatch No. 49 of October 14, 1935, from the Amoy Consulate,[33] reporting on one aspect of anti-Japanese feeling in China. The nationalistic manifesto forwarded with that despatch calls more particularly, it will be noticed, for resistance to the encroachment of "Japanese imperialism" on the province of Fukien.

It is generally agreed by observers that 1) the Japanese are pressing forward on various fronts for definitive settlements of outstanding Sino-Japanese problems, and 2) the National Government is extremely hard pressed to find a formula which will at one and the same time meet Japanese "aspirations" and leave the Government with sufficient prestige and power before the Chinese people for it to maintain its equilibrium. Feng Yü-hsiang, it is said, consented to go to Nanking to attend the Sixth Plenary Session of the Central Executive Committee and the Fifth National Kuomintang Congress only after having been pressed jointly to do so by Chiang Kai-shek, General Yen Hsi-shan of Shansi, and Chairman Han Fu-ch'ü of Shantung, and only when he had received substantial assurances that there would actually be discussions initiated at those meetings for the purpose of evolving means of "protecting the country and the people". If the attendance of Feng Yü-hsiang and the Southwest delegates has any significance at all, it would seem to lie in the obvious inference that Japanese pressure has at last given rise to a situation wherein the several Chinese factions feel impelled to settle their differences for the purpose of presenting a united front to the opposition.

The necessity for the adoption of a common policy against foreign aggression must have become startlingly apparent to all Chinese groups in the period that had its beginning on September 24 of this year. Prior to that time, certain pro-Japanese elements had been cherishing a hope that Japanese rule of North China and domination of the rest of the country would be exercised in a sympathetic way for the ultimate good of the Chinese people. "Economic cooperation" in the development of the five provinces of North China was

[33] Not printed.

to have been the starting point for this new relationship. But the Tada Statement of September 24, the subsequent force applied by the Japanese at Swatow and Hankow to effect their will as regards provincial taxation, and the dismissal of Garrison Commander Yeh P'eng, respectively, the Dairen Conference of October 13–14, the Shanghai Conference of October 20–21 and subsequent peregrinations and utterances by responsible Japanese officials, the *démarches* of the Japanese Garrison Headquarters in North China on October 29 and October 30 and the threatening attitude adopted toward the Chinese side, the arbitrary arrests of Chinese on the charge of their belonging to nationalistic organizations, and the belligerency displayed by Japan regarding the question of China's monetary measures of November 4, have apparently combined to remove from the mind of so-called pro-Japanese Chinese any last vestige of hope for prospective benefits to be derived from Japanese rule. The impatience of the Japanese Army with the characteristic Chinese procrastination has led the Army to show its hand. Chinese opinion in consequence is being disillusioned even where illusion continued to exist, and the problem confronting Chinese leadership is clearly seen to be one, not of evolving a scheme for political and economic cooperation within the framework of an equal partnership, but of deciding on the ways and means for resisting the continued advance of Japanese ambitions on the continent of Asia.

If there is agreement on that one point, Chinese councils are quite evidently divided on the question of where and when the resistance shall begin. It is probable that Chiang Kai-shek, who has consistently supported the policy of conciliation since the inception of the current phase of Sino-Japanese relations with the Tangku Truce of May 1933, labors under no misapprehensions regarding Japanese intentions towards him. It seems to have been a matter of common knowledge to Chinese and Japanese alike that the Generalissimo has been playing for time with the Japanese, hoping to be able to stave off a final settlement until he had built up a modern army whose power could be made manifest. A prominent economist and Kuomintang member stated in private conversation recently that Chiang Kai-shek's policy, as expressed in private military councils, was given almost verbatim recently in an article by Dr. V. K. Ting (Secretary General of the Academia Sinica) in the *Tu Li P'ing Lun* (*Independent Critic*, Peiping) of August 21, 1935. According to Dr. Ting, China now stands where Soviet Russia stood in 1918, and would be forced, "for the preservation of the revolution", to sign a treaty of surrender which would give the country a breathing-spell during which it could gather its scattered forces—in the mountainous West China if nowhere else—and grow to a new strength (and, by implication, a day of reckoning).

According to the analysis of the afore-mentioned economist, the primary interest of the Chinese State, as of any State, lies in its self-preservation. Its existence is closely linked with a financial structure which is bound indissolubly to foreign factors and rendered extraordinarily vulnerable by reason of this close relationship; as a result, the Chinese State would be endangered immediately by any strong action against its financial framework. The chief interest of the Chinese people, however, as distinguished from the State, lies not in the preservation of the existing political structure but in the maintenance of national sovereignty and popular liberties, with the result that the interests of the State and the people have become incompatible in so far as the State is prepared to surrender national sovereignty in return for its own existence. The people demand, he said, that they be armed for resistance to the national enemy regardless of consequences to the political structure; the State bargains for time in the hope that it will not be forced to renounce the stage.

The supine attitude of Chinese publicists, students and thinkers to date before the challenge offered by Japan's spirit of "manifest destiny" is a matter of public knowledge: it is but rarely that more than a feeble protest has come from the Chinese side under the repeated threats of the Japanese Army. Nevertheless, it is also to be admitted that the attitude is one which has been largely fostered by the National Government itself, which has taken drastic measures, in the pursuit of its policy of "conciliation", to suppress any movements of direct attack, economic boycott, or adverse criticism against the Japanese that might have exacerbated the Sino-Japanese relations which such heroic efforts were being made to better. The Government's policy of suppression must be adjudged responsible in large part for the feeling of despair and lethargy which is so general in Chinese circles today. There are indications, however, that some Chinese elements, long restive under the Government's restraints, in their desperation are developing a new courage. An example of the more radical type of manifestation is reported in the afore-mentioned despatch from Amoy. As an example of the indirect, more academic effort of a section of China's population to become articulate in the present crisis there is enclosed a copy (in English translation) of an express letter [34] sent recently from North China by the "Students' Self-Government Association" to the Sixth Plenary Session of the CEC,[35] and distributed besides to various publicity agencies and educational institutions. The express letter had its origin in Yenching University, but the other chief schools and colleges in North China participated, and the petition incorporated in that communication is said to represent the will of 40,000 students.

[34] Not printed.
[35] Central Executive Committee.

As will be noted, the students make a passionate protest against the Government's method of smothering the forces of public opinion, and call for certain democratic liberties laid down in the Provisional Constitution, specifically, 1) freedom from illegal arrest and detention, 2) exemption of civilians from arbitrary court-martial proceedings, 3) freedom of assembly and of association, and 4) freedom of speech and of the press. The explanation given at the end for the petition is that, "as the general situation in the country is such, all citizens should share the responsibility and should burst forth to save the life of the country. The sooner the gyves and fetters are removed, the earlier we can perform our duties." (It will be observed that this petition is consonant with the fact that the Kuomintang "Period of Tutelage" is technically due to terminate.)

The inherent weakness of the policy of "conciliation" has been clearly demonstrated in the past few months, and is becoming generally discredited as both ineffective and humiliatingly feckless. An adverse criticism of Dr. V. K. Ting's particular argument was given by Dr. Hu Shih in the same issue of the *Tu Li P'ing Lun*, where the latter opened his attack on Dr. Ting's Fabian thesis with the observation that the chief significance of the Treaty of Brest-Litovsk [36] was to be discovered not in the signing of the treaty but in subsequent events: "the preservation of the (Russian) revolution" was achieved not by surrender to the German arms but by the three years of sanguinary fighting against domestic and foreign enemies that followed upon the Brest-Litovsk tableau. Dr. Hu agreed with Dr. Ting that China had valuable lessons to learn from the history of revolutionary Russia's foreign relations, but he could not agree that that history warranted counsels proposing further retreat "into the mountains of Kweichow and Yunnan".

Writing in the *China Weekly Review* for August 17, 1935, under the heading "The Future of China's Policy Toward Japan", C. Y. W. Meng summarized the opposing points of view regarding the foreign policy to be adopted by China in its present straits, and threw his support to Dr. Hu's thesis:

"By accepting the Japanese demands wholesale, by exerting more 'friendly gestures', such as the elevation of the status of legations to that of embassies, etc., by discussing with the 'invaders' the 'economic bloc', and lastly by agreeing to the Japanese 'plans' to develop the Northern Provinces, which, as every observer knows, are nothing short of the domination of North China by Japan politically, economically and militarily, and the loss of North China to China, China 'hopes to have a glorious armistice' or 'democratic peace' with Japan, so that China may go on with the task of 'pacifying first the conditions within' (the country). But the signing of the Peace Treaty of Brest-

[36] Treaty of peace between Germany and Soviet Russia, signed March 3, 1918, *Foreign Relations*, 1918, Russia, vol. I, p. 442.

Litovsk should be a sufficient lesson to us that the aggressor would never let us have a glorious armistice or democratic peace, but would only force us to sign the most derogatory and humiliating treaty; and as soon as such treaty is signed, it is bound to stir up further internal political dissensions or (bring about) the downfall of the party in power, rather than 'to make the revolution secure!' . . .[37]

"We should never sign a 'peace treaty of Brest-Litovsk' with Japan. We should never prepare ourselves to flee to the 'Kamchatka of China', but we should change our past policy of 'non-resistance' and 'compliance' to a policy 'to defend every inch of our territory until every drop of our blood is exhausted'!"

The events of the period subsequent to Major General Tada's statement on September 24 have given the subject a new significance for the Chinese people. Whereas there are plenty of persons prepared to admit that cooperation and friendliness between China and Japan, if characterized by sincerity and a trustful spirit on both sides, would lead to obvious benefits for the peace and prosperity of the Far East, hope for such a happy eventuality has been largely lost. The question of "who struck the first blow" is of only academic significance beside the fact that Sino-Japanese relations have reached a crucial state—and possibly Chinese public temper a breaking point. There is evidently growing up a body of Chinese opinion that looks for its support to such factors as critical Japanese finances, the possible application of sanctions against an aggressor State, British intervention in the field of Chinese finance, and Soviet Russian sympathy, instead of depending hopefully but helplessly upon such bare comfort as may be derived from the vague promises of an "Asia for the Asiatics"—under Japanese hegemony. While the specific direction Chinese political thought will take depends upon developments directly ahead, and that thought may be subjected to pressure designed to shatter it completely, the present indications are that Chinese public opinion is entering new and deeper channels.

Respectfully yours,

For the Ambassador:
F. P. LOCKHART
Counselor of Embassy

893.00/13276 : Telegram

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

NANKING, November 13, 1935—1 p. m.
[Received November 14—2:45 p. m.]

74. 1. Over 400 have gathered for the Fifth Kuomintang Congress which opened yesterday morning. Among the leaders are Yen Hsi-shan and Feng Yu-ksiang who have been selected by the Central

[37] Omission indicated in the original despatch.

Executive Committee to be members of the Presidium together with Chiang Kai-shek, Wang Ching-wei (who is still in the hospital), other National Government figures and one Southwestern official—Tsou Lu, president of the Sun Yat-sen University. From the Southwest have arrived: the Chairman of Kwangtung and Kwangsi Provinces; Tsou Lu; Liu Chi-wen, Mayor of Canton; four other members of the Central Executive Committee; and three Cantonese delegates. A semiofficial press organ states that Li Tsung-jen is leaving Canton for Nanking today but Chen Chi-tang will not come "owing to urgent military duties". The organ states that Hu Han-min will leave France for China November 15th. Ma Chao-chun and Tai Chi-tao have returned and report that the results of their exchange of views with Southwest leaders are "very satisfactory".

2. Several well-informed Chinese officials have predicted in conversation with officers of the Embassy that the draft constitution will probably be adopted by the Congress but will remain ineffective because it must be approved by the National People's Congress, the date of which they state will be postponed, and that consequently there is less likelihood that the period of tutelage will be terminated in the near future.

3. No date has been announced for the selection of a National Government chairman. Rumors persist that Yen Hsi-shan will be given this post and his is the only name of which mention has been heard in this connection.

4. A theory prevails among several Chinese informants that the recent recrudescence of Japanese activity in North China is a partial result of Japanese displeasure at the apparent progress in the unification of various Chinese political factions with the National Government as evidenced by the coming here of Yen Hsi-shan and Feng Yu-hsiang and the prospects (which have now materialized) that the Southwest would send delegates.

5. To Peiping and Tokyo by mail.

JOHNSON

793.94/7372 : Telegram

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

PEIPING, November 13, 1935—5 p. m.
[Received November 14—11 : 20 p. m.]

137. Embassy's 133, November 12, 5 p. m., paragraph 3. In an interview printed in today's press General Matsui (now described as a former member of the Japanese Supreme War Council) is quoted as expressing the belief that there will be no completely independent

state in North China and that "the new Northern autonomous government" will probably be similar to that of Kwangtung. He expressed the view that it would enact and administer its own laws, employ its revenue for local developments, maintain its own army, have its own foreign affairs department and be otherwise self-sustaining while maintaining its connection with Nanking. The autonomous area would probably consist of Hopei and Chahar in the beginning, to be extended later to the other three Northern provinces. Regarding the currency to be used Matsui gave it as his opinion that the legal tender of China would be the currency of the North China autonomous government although it might be discovered necessary to issue a new currency paralleling that of the National Government banks. He further states that China under present conditions would better be divided under several autonomous governments as a "federation of Chinese states" under a national regime to facilitate regional development until such time as the Central Government is better organized. Matsui also said that Japan would be forced to use its armed forces to meet any communist advance either down from Monastir [*sic*] or from Northwest China into North China proper. He expressed opposition to the giving of Japanese military assistance to stabilize the situation in China or to aid the establishment of autonomous government and stated Japan should in a dignified manner take any action necessary to accomplish the general end of liberating the Chinese people from oppression.

General Matsui emphasized that he spoke as a private citizen (he has retired from the Army and is said to be travelling in a private capacity).

General[s] Matsui and Doihara are expected in Peiping today.

Repeated to Nanking and mail to Tokyo.

LOCKHART

793.94/7359 : Telegram

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

TOKYO, November 13, 1935—6 p. m.
[Received November 13—10 : 10 a. m.]

209. 1. With reference to the recent anti-Japanese incidents in Shanghai, the Director of the Bureau of Eastern Asiatic Affairs of the Foreign Office stated today to a member of the staff of the Embassy that:

(*a*) He believed the incidents were due to communistic influences working on anti-Japanese sentiment.

(*b*) The Foreign Office had made representations only requesting that the culprits be found and punished but reserving the right to make suitable representations when the background of the incidents becomes clear.

(*c*) If the Chinese authorities do not take adequate action Japan will have to take steps to insure tranquillity in Shanghai which is Japan's principal aim.

(*d*) He did not however take any very serious view of the incidents and did not believe that they would result in military steps by the Japanese.

2. Questioned in regard to the Nippon Dempo report to the effect that the Kwantung Army has decided to perform "a certain duty" as a result of the Shanghai incidents, the director stated that this report was issued only to frighten the Nanking Government.

3. A spokesman for the Navy today informed the Naval Attaché of the Embassy that:

(*a*) The Navy regards the killing of one of its sailors seriously but has no present plans and is watching developments.

(*b*) There is no landing party in Shanghai outside the usual naval garrison.

(*c*) If the situation in Shanghai goes beyond "reasonableness" the Navy will be obliged to take steps to protect Japanese nationals.

Repeated to Peiping.

NEVILLE

793.94/7374 : Telegram

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

NANKING, November 14, 1935—noon.
[Received November 15—6:53 a. m.]

75. My 73, November 11, 3 p. m.[38]

1. I am informed by the correspondent of the Associated Press that yesterday the Japanese Embassy orally asked the Foreign Office to cause the issuance of instructions to the appropriate authorities looking to the cessation of anti-Japanese activities and the suppression of anti-Japanese organizations. The recent murder of a Japanese Marine in Shanghai and the subsequent attack upon a Japanese shop in the International Settlement were not mentioned, according to my informant, and care was taken to emphasize that no protests or demands were being lodged and that the representations were purely in the nature of a request.

2. To Shanghai and Tokyo by mail.

JOHNSON

[38] Not printed.

793.94/7375 : Telegram

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

SHANGHAI, November 14, 1935—4 p. m.
[Received 8:30 p. m.]

674. My 669, November 12, 4 p. m.[39]

1. Conditions remain tense, the Japanese press stress numerous anti-Japanese incidents, some very insignificant. At 7 p. m. on November 11 at corner Nanking and Fukien Roads unknown persons smashed window of a Japanese shop and distributed anti-Japanese and anti-Kuomintang handbills; this was most serious of incidents that have happened. Secretary General of Shanghai Municipal Council[40] yesterday reported an interview with Japanese Consul General the preceding day wherein the Consul General stated that culprits who killed Nakayama and are carrying on anti-Japanese campaign must be found. Secretary General regards conditions as exceedingly serious and inquired whether American military forces could protect the International Settlement against invasion by Japanese; he was informed emphatically that this would not be possible. He also inquires whether Shanghai Municipal Council should resist by military force any attempt by Japanese to oust functionings of Shanghai Municipal Council from the Hongkew district and was informed that my personal view was that the Municipal Council should do all within its power to maintain its functionings short of actual aggression. He approved my informing the Department and the Ambassador of his inquiry and my reply.

2. This morning the British Consul General and the Chairman[41] and Secretary General of Shanghai Municipal Council called to discuss the situation. The Chairman stated he desired that Mr. Fessenden report to both Sir John Brenan and me his interview with the Japanese Consul General on November 12. There were no new statements made but it was apparent that both the Chairman and Secretary General were more concerned in regard to local conditions that [*than*] he was led to believe yesterday. They regard conditions as exceedingly serious. They feel that a continuance of anti-Japanese demonstrations might easily lead to the Japanese usurping the Municipal Council's functionings in Hongkew district as was done in 1932. Japanese police authorities have refused to give any information regarding the action of Nakayama prior to assault. His movements prior to assault are regarded as important by municipal police. Con-

[39] Not printed.
[40] Stirling Fessenden, an American lawyer.
[41] H. E. Arnhold, British businessman.

siderable exodus from Chapei to Settlement on 10th, some on the 11th, but discontinued on 12th. Personally visited the streets leading into the Settlement from the affected area at noon on 13th and considered conditions practically normal. Late afternoon exodus was resumed and during last night from 1,500 to 2,000 entered the Settlement from Chapei. The reasons for the renewal of this exodus are not apparent but are not surprising since Japanese are more numerous in Hongkew and bordering districts than previously and bear arms with fixed bayonets.

3. Well-informed Japanese believe that the Japanese are no longer primarily interested in North China, but regard Central China as exceedingly important and believe that anti-Japanese acts are numerous and may lead to outbreak at any time. One such well known to Secretary General of Shanghai Municipal Council has informed him that conditions are so serious that an outbreak may occur at any time. Repeated to Embassy, Peiping and Nanking.

CUNNINGHAM

793.94/7373 : Telegram

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

NANKING, November 15, 1935—9 a. m.
[Received 9 : 15 a. m.]

77. Suma came to see me last evening. He expressed himself as very pessimistic about the situation in China especially in regard to Sino-Japanese relations. He referred to recent Shanghai incidents as being part of a considered plan to annoy the Japanese. He stated that Sino-Japanese diplomatic discussions were at standstill, saying that Hirota had had a discussion with Chiang Tso-pin in Tokyo regarding fundamental principles of Sino-Japanese relations but that Chinese in effect were refusing to see Ariyoshi as they had requested him to postpone his visit to Nanking. He spoke of his belief in an agreement between Canton and Nanking to eliminate Wang Ching-wei from the Government in consideration of Canton's participation in party affairs and referred to recent arrival of Canton delegates and stated that all this indicated a probable stiffening of Chinese attitude toward Japan.

To Tokyo by mail, repeated to Peiping.

JOHNSON

793.94/7381 : Telegram

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

NANKING, November 15, 1935—3 p. m.
[Received November 15—1 p. m.]

80. 1. In a careful and frank statement today Vice Minister for Foreign Affairs, Tang Yu-jen, informed me that the rumors that the Japanese Government has presented numerous demands to the Chinese Government are incorrect but that the whole matter of Sino-Japanese relations has now reached a critical stage because of insistence by the Japanese Government that the Chinese Government agree to implement three policies: (1) to cease relying upon support from nations other than Japan; (2) to remove all obstacles to free intercourse between the people of "Manchukuo" and China; and (3) to take joint action with Japanese to combat the communistic menace in North China.

2. Tang explained that Japan's suspicions in connection with policy (1) have been acutely aroused by the monetary measures promulgated on November 3.

The Japanese argue that the Chinese would not have embarked on the nationalization of silver without having first received a promise of a loan because they believe the measure cannot be carried out without such loan and the Japanese suspect the British of having promised this assistance. Chinese and British denials that such a loan has been arranged do not convince the Japanese and the latter, according to Mr. Tang, now believe that they must, in their own protection, set to work to eradicate British influence in East Asia. Tang expressed the fear that Japanese suspicions aroused by the monetary measures of November 3 contained seeds of serious future international trouble.

3. Tang said that the Japanese are not asking that China officially recognize "Manchukuo" and that the Chinese Government will probably be able to reach an understanding with Japanese providing for resumption of communications and other normal relations between the people of Manchuria and China.

4. Consent by the Chinese Government to Japanese military operations in North China against the communistic forces, according to Tang, offers serious problems because it would involve that [*the?*] presence of large Japanese forces there. He said incidentally that the Japanese Government had not officially broached the subject of an autonomous state in North China and there is no danger of Japanese official action in that connection but that Japanese are constantly intriguing with individual Chinese in North China and the latter may become tools of the Japanese in the autonomous movement. On this point Tang expressed great anxiety. Tang said that the Japanese

have a deep suspicion that the Chinese Government has a military understanding with the Soviet Government and although the Chinese Government has categorically denied this the Japanese are insisting that direct proof be given in the form of military cooperation with Japan against the communist forces.

5. Tang said that the Chinese Government was insisting first that Japan treat it as a sovereign state and that whereas China might agree to the principles underlying these three policies, without some concrete proposals as to how these principles might be carried out the Chinese Government could do nothing. The Japanese, he said, had presented no concrete proposals because although the several departments of the Japanese Government might be agreed on the principles themselves there was a divergence of views among the Japanese as to the way in which the principles themselves should be interpreted. He said the forthcoming election of new party and Government leaders will not affect the Japanese issue since the Government's policy toward Japan has long been formulated and moreover the personnel of the Government will remain practically unchanged.

Paraphrase by mail to Peiping and Tokyo.

JOHNSON

793.94/7380 : Telegram

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

SHANGHAI, November 15, 1935—6 p. m.
[Received November 15—2 p. m.]

677. Referring to my telegram No. 674, November 14, 4 p. m.

1. Chinese continue exodus from Chapei to foreign settlements. Police estimate 10,000 came in yesterday. I have never known so many indefinite rumors of an alarming character as have reached this office during last 3 days. The Mayor of Greater Shanghai has issued statements that should reassure the Chinese residents. The Japanese Consul General has issued statement requesting calmness. It is true that the Japanese naval landing party are out in greater numbers and also the Japanese Consul General's police are more noticeable than at any time previously other than during hostilities. There is nothing further of local importance to report.

2. There are an unusual number of Chinese who express the view privately that any Japanese military activity in the Yangtze Valley will be resisted. It is preposterous to believe the Japanese intend any military operations in this section when they only have some 2,300 men, slightly over 500 of whom are alleged replacements of the naval landing forces which arrived on the 11th. It is fairly certain that they

were intended to be replacements as they were embarked before the Nakayama murder but it is not believed that a number have been reembarked as yet for Japan. Repeated to Embassy at Peiping, mail copy Nanking and Tokyo.

CUNNINGHAM

693.11241 Manchuria/7

The Consul General at Mukden (Ballantine) to the Ambassador in China (Johnson)[42]

No. 181 MUKDEN, November 15, 1935.

SIR: I have the honor to refer to my despatch No. 123 of June 24, 1935 in which I referred to the reply given to me by Mr. Ohashi, Vice Minister for Foreign Affairs, to my inquiry regarding his attitude towards the imposition of import duties on official supplies for the Consulates General at Harbin and Mukden, and to report the substance of a conversation I had with him on this point in my interview with him on November 13.

I referred to our previous conversation in which he had said that the action which had been taken on this matter had originated in the Department of Finance, and that as he was not conversant with the reasons which had prompted it, he would discuss the matter at our next interview after consultation with that department. Mr. Ohashi said that he did not wish it to be understood that the "Manchukuo" Government expected to induce foreign governments to act in the matter of recognition through resort to petty tactics such as the imposition of duties on official supplies, but he felt that as "Manchukuo" was an independent state the least that could be asked was that procedure on customs free entry be regularized by requiring as a condition precedent to granting it that formal application therefor be made to the Foreign Office. I said that I had no comment to offer, and was merely seeking information.

In this general connection, it may be well to mention that Mr. Ohashi was very unreserved and cordial to me on the occasion of my visit. He took occasion to refer particularly to the fact that my British Colleague and myself had exerted ourselves to maintain friendly informal contacts in contrast to the aloofness of consular representatives of other countries. Mr. Tsutsui, an old acquaintance formerly in the Japanese Foreign Service, but now Director of the Bureau of Information, expressed the hope that I could make my visits to Hsinking more frequent.

Respectfully yours, J. W. BALLANTINE

---

[42] Copy transmitted to the Department by the Consul General in his unnumbered despatch of November 15; received December 4.

793.94/7382 : Telegram

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

PEIPING, November 16, 1935—noon.
[Received November 16—9 a. m.]

151. Embassy's 150, November 15, 9 p. m.[43] Reports of fresh arrival of Japanese troops at Shanhaikwan are confirmed, the number being given as approximately 3,000. No troops have moved westward from Shanhaikwan and it may be of some significance that some of them have already been billeted, indicating that it is not their immediate intention of proceeding westward. However, an unconfirmed report has just been received that the Japanese have ordered in "Manchukuo" 10 trains for movement of troops. Inquiry is being made of the Consulate General at Mukden.

Repeated to Nanking, Shanghai and Tokyo; by mail to Mukden.

LOCKHART

793.94/7385 : Telegram

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

NANKING, November 16, 1935—3 p. m.
[Received November 16—11 a. m.]

83. Suma, who has apparently been watching the situation very closely, informed me today that the Fifth Kuomintang Congress is considering China's attitude toward Japan in connection with the election of the new Central Executive Committee and that the Congress thus far divides itself into about 70% hostile to Japan while 30% supports Wang Ching-wei and his group and Sun Fo and his group whom he describes as Japanophile. He states that Wang Ching-wei's group have lost heavily in prestige and that the Southwest group are opposing Wang Ching-wei's inclusion in the Cabinet and are supporting the candidacy of Yen Hsi-shan as a compromise between Wang Ching-wei and Hu Han-min.

Suma also stated that there was a concentration of 11 divisions of Chinese troops between Nanking and Shanghai, brought into this area from Kiangsi, and that there was a further concentration of Chinese troops on the Peiping-Hankow Railway in the direction of Hankow.

Repeated to Peiping. To Tokyo by mail.

JOHNSON

---

[43] Not printed.

793.94/7389 : Telegram

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

PEIPING, November 18, 1935—2 p. m.
[Received November 18—6 : 32 a. m.]

154. Embassy's 151, November 16, noon. Following telegram has been received from the Consul General at Mukden:

"November 17, 11 a. m. Embassy's telegram of November 16, 1 p. m. I am informed by reliable Chinese that night movements of troop trains through Mukden to Shanhaikwan have been occurring for last 3 nights and that as many as 5,000 troops may be involved. He added that preparations are being made for the concentration at Chinchou by November 24 of 1,000 railway operatives to take over Shanhaikwan-Peiping Railway in case of necessity. Japanese sources yield little specific information; all agree that the situation is grave and may lead to intervention. An official connected with mission told me that for some time troops have been held in readiness for emergencies."

Repeated to Nanking, Shanghai and Tokyo.

LOCKHART

793.94/7399 : Telegram

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

NANKING, November 18, 1935—2 p. m.
[Received 4:07 p. m.]

85. Reuter's has today distributed "for your information only" a news despatch with date line Peiping, November 17. Synopsis follows: The Garrison Commander, Sung Che-yuan, and the Mayor, Chin, are extremely anxious over threatened Japanese invasion and have asked Nanking for instructions but none have been received. According to informed sources Doihara has pressed both officials for a declaration of full or semi-independence. It is reported that this pressure has been resisted but that the Chinese officials obtained Doihara's consent that if such a declaration became inevitable they might consider it subject to the conditions that the wishes of the people should be followed and that the declaration should not lead to loss of Chinese territory. The news report continues that Doihara may consequently hold his hand temporarily in view of reports that Yen Hsi-shan is likely to return to Shansi disappointed in his projects but it is understood that Doihara has threatened that if independence is not declared the Japanese troops gathering at Shanhaikuan will come inside the Great Wall. The report concludes with the observation that Sung and Chin are faced with the dilemma of either con-

senting to political detachment of North China or seeing military occupation of Chinese territory.

Repeated to Peiping.

JOHNSON

793.94/7392 : Telegram

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

PEIPING, November 18, 1935—6 p. m.
[Received November 18—10 : 45 a. m.]

157. Embassy's 148, November 15, 5 p. m.[44] Apparently the leaders of North China have not yet come to an agreement among themselves or with the Japanese in respect to Japanese plans for a new regime in North China. It would appear that the Japanese military have found the Chinese leaders less tractable than they had anticipated. Meanwhile the Japanese forces at Shanhaikwan are said to be increasing in number slowly. According to some official sources it now appears that the plan contemplates that for the time being Sung will control only Chahar and Hopei, that Han will control Shantung and that the relations of these Chinese will be less close with Nanking and more close with the Japanese than heretofore. It would seem that this arrangement might make it easier for the Nanking Government to reconcile themselves to changed conditions in North China.

2. Yin Ju-keng, special administrator of the demilitarized zone, together with police commanders and magistrates of that area issued a joint circular telegram November 15 indorsing General Sung's telegram requesting the termination of the period of political tutelage. It is presumed that the purpose of Yin's telegram was to gain Japanese favor. According to a Chinese official Yin is working to have the demilitarized zone made into a special area perhaps a province completely divorced from Hopei, a course which might well please the Japanese.

Repeated to Nanking. By mail to Tokyo.

LOCKHART

---

[44] Not printed.

793.94/7403 : Telegram

The Second Secretary of Embassy in China (Atcheson) to the Secretary of State

NANKING, November 19, 1935—2 p. m.
[Received 3:10 p. m.]

89. This Embassy's 85, November 18, 2 p. m.

1. Reuter has distributed another news despatch "for information only" dated Shanghai November 18 stating that Rengo had received a despatch from Peiping to the effect that the five Northern provinces are to declare autonomy November 20 and that the following had been named as members of the "Preparatory Committee" for the establishment of the new North China Administration: Sung Che-yuan; Han Fu-chu; Shang Chen; Chin Teh-chun; Hsiao Chen-ying, Chahar Chairman; Wan Fu-lin; Chang Keh; and Yin Ju-keng, Administrative Commissioner for the Lwantung area.

2. Suma stated this morning that he will be greatly surprised if an autonomous movement is announced tomorrow. He predicted that disorders in North China will increase.

3. By mail to Shanghai for the Ambassador and to Tokyo.

ATCHESON

793.94/7400 : Telegram

The Second Secretary of Embassy in China (Atcheson) to the Secretary of State

NANKING, November 19, 1935—4 p. m.
[Received November 19—10:10 a. m.]

90. I have just been confidentially informed by a departmental director of the Foreign Office that the situation in North China is expected to crystallize, if not tomorrow, then very shortly thereafter. He stated that the Kwantung Army has made preparations to take over the customs as well as the Shanhaikwan-Peiping section of the railway in case Sung Che-yuan and other Chinese officials whom the Japanese military have been pressing do not take action to set up an autonomous five province regime or to separate North China into autonomous sectional regimes. He said that Japanese troops have been concentrated at Chinchow and Shanhaikwan both as a threat to Sung and other North China officials and as a weapon to employ in case those officials do not comply with Japanese desires that North China undertake its own administration.

2. As the probable leaders of an autonomous movement in North China, he named the officials listed in my 89, November 19, 2 p. m. with

the exception of Han Fu-chu whose refusal to capitulate to the Japanese he said was still hoped for. He excused Sung Che-yuan and Shang Chen for any part they may have to play in a new regime because "they have been between the devil and the sea" and said that Sung, whom he considers the most likely leader of a new regime, must either (1) conform to Japanese wishes; (2) resist the Japanese with force, or (3) resign. He did not think Sung or any other Chinese military official in the North would fight the Japanese "at this time" and added that Sung's resignation would not help the National Government because the Japanese would select some other official to replace him.

3. He said the Chinese Government was taking no action in the matter although several leaders were pressing Chiang Kai-shek to take a definite and open stand. He added that "every one knew" that war between China and Japan was inevitable but he doubted if Chiang [would force?] the issue now, and the officials in the North were being allowed to drift about in their own difficulties because the Government's only policy, "if it could be called that", was to "play with the Japanese to gain time".

4. To the Department, Shanghai for the Ambassador, and Peiping, summarized to Tokyo by mail.

ATCHESON

793.94/7359 : Telegram

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

WASHINGTON, November 19, 1935—5 p. m.

177. Your 209, November 13, 6 p. m., has been helpful to the Department in making estimate of the situation in Shanghai.

The Department desires that you keep it fully and currently informed in regard to all important developments affecting relations between China and Japan, including Embassy's comment on and analysis of such developments.

HULL

793.94/7404 : Telegram

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

PEIPING, November 19, 1935—6 p. m.
[Received November 19—4:20 p. m.]

161. Embassy's 157, November 18, 6 p. m. Local United Press correspondent has reported information given him by Chinese press manager with regard to alleged interview of Hsiao Chen-ying yester-

day with Chinese press during which Hsiao said that in his negotiations with Doihara the latter has insisted on the establishment of an autonomous government of North China functioning nominally under Nanking, Japan being prepared in return therefor: (1) to recognize Chinese sovereignty over this Northern province; (2) to recognize China's territorial integrity; and (3) not to interfere with internal administration. Hsiao further said that the Japanese had agreed not to put into words agreement that Japanese advisers be employed; that Doihara had said that if the new regime were not declared by November 20, Japanese forces would enter Hopei and Shantung to establish an independent North China under Pu Yi; and that Doihara threatened the use of force if the National Government should take military action against new regime.

2. Hsiao yesterday informed a Chinese official well known to the Embassy that the creation of a new organization had been decided upon by Northern leaders; that it will be called the Anticommunist Autonomous Commission of North China; that announcement of organization will be made November 20; that it will be headed by Han Fu-chu (who, it is reported, is to arrive at Peiping within a day or two); that the name of the organization is a compromise measure to attempt to hide the reality of an autonomous North China and that the Japanese have agreed in return to respect Chinese territorial integrity with reference to administration and nominal allegiance to the National Government. The Embassy's informant, above mentioned, doubted that agreement on this had actually been reached among the Chinese especially on the part of Shansi and Suiyuan leaders.

3. It is of interest that Hsiao's press interview was published in substance by the Japanese press in Shanghai before Hsiao gave the alleged interview, thereby indicating perhaps that it was the intention of the Japanese to intimidate the Chinese into agreement.

4. The Chinese press reports today concentration of Japanese forces at various passes of the Great Wall. However, the Chinese official in charge of customs offices along the Great Wall states that he has no information from those offices with regard to concentration (except at Shanhaikwan) and doubts if it has taken place.

5. No information has as yet been obtained with regard to what the Japanese will desire of the new regime if formed in respect to financial and military affairs.

6. The situation continues to be somewhat obscure but the Embassy doubts that the North China leaders have yet come to an agreement although important conversations are understood still to be in progress.

Repeated to Nanking and Shanghai, by mail to Tokyo.

LOCKHART

793.94/7410 : Telegram

The Second Secretary of Embassy in China (Atcheson) to the Secretary of State

NANKING, November 20, 1935—noon.
[Received 4:40 p. m.]

91. 1. The semi-official Central News Agency this morning released in English a summary of an address on China's foreign relations made yesterday by Chiang Kai-shek before the Fifth Kuomintang Congress, the translation having been prepared by Madame Chiang. While cloaked in the ambiguities characteristic of Chinese political pronouncements, the address is of particular interest because of the revelation it makes concerning Chiang's official attitude toward the North China crisis and Sino-Japanese relations in general and it is therefore reproduced below with little contraction in its essentials.

2. He said that the people should not place undue emphasis upon either external or internal affairs to the neglect of the other; that in formulating foreign policy the "permanent interests" of the nations should be considered and responsible statesmen should not be unduly influenced by "personal sentiment and temporary circumstances." He said that "the rise or decline of China as a sovereign power will have an important bearing on world peace" and "particularly our neighbor, Japan, should be deeply concerned with the peace of the Orient and the common good of both China and Japan. What we seek is simply self-preservation and coexistence with other members of the family of nations."

3. He went on to say:

"If international developments do not block national regeneration, we should practice forbearance in facing issues not of a fundamental nature. We should seek harmonious relations among nations, provided there is no violation of our sovereignty. We should seek economic cooperation based upon equality and reciprocity. Otherwise, we should abide by the decision of the party and the nation. We shall not forsake peace until there is no hope for peace. We shall not talk lightly of sacrifice until we are driven to the last extremity which makes sacrifice inevitable. If, acting within the limit to conditions for peace, and with a determination to sacrifice, we make our supreme efforts for the consolidation of the nation and the regeneration of the people, then the aim of our party to save the country will be attained.["]

4. By mail to Shanghai for the Ambassador, Peiping, and Tokyo.

ATCHESON

793.94/7405 : Telegram

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

TOKYO, November 20, 1935—4 p. m.
[Received November 20—8 : 15 a. m.]

212. Referring to Peiping's 151, November 16, noon and 154, November 18, 2 p. m. in regard to reports of Japanese troop movements toward North China.

1. The Military Attaché of the Embassy has been informed by a liaison officer of the War Office that

(*a*) The prohibition of the movement of troops of the Kwantung Army below the Wall referred to in paragraph 3 of the Embassy's 128, June 11, 6 [5?] p. m. is still in force.

(*b*) Should the Nanking troops attempt to move into Hopei, however, the Japanese Army will be compelled to take action implying that in such case imperial sanction will be forthcoming.

(*c*) The Japanese garrison at Shanhaikwan has in fact been strengthened by some 2,000 odd men drawn from other units in Manchuria.

(*d*) The Japanese Army authorities continue to be suspicious of Chiang Kai-shek and believe that he has come to some agreement with the communist troops in Szechuan who are escaping to the northern provinces of China.

2. The Embassy has been unable to obtain further official information in regard to Japanese activities and intentions in North China but the vernacular newspapers reported that the Foreign Office instructions to Ariyoshi are to inform Chiang Kai-shek that Japan views the autonomy movement in North China as an affair concerning only the Chinese people but that Japan is interested because of the propinquity of the region to "Manchukuo" and desires that the Nanking Government recognize the true nature of the autonomy movement.

4. [3?] According to the *Yomiuri*, the policy of the Japanese Army toward the autonomy movement is:

(*a*) To give positive assistance to the movement as long as the new regime pursues a policy of combatting communism and seeking friendship with Japan and "Manchukuo."

(*b*) To prohibit the Nanking troops from entering Hopei and to use armed protection if Japanese interests are endangered by movements of Nanking troops in other provinces of North China.

(*c*) To avoid suspicion that the Japanese Army intends to create a second "Manchukuo" in North China.

Repeated to Peiping.

NEVILLE

793.94/7408 : Telegram

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

PEIPING, November 20, 1935—4 p. m.
[Received November 20—10:42 a. m.]

163. Embassy's 162, November 20, 2 p. m.[45] Hsiao Chen-ying has informed local press correspondent that he received a peremptory order from Chiang Kai-shek last night to discontinue negotiations with Japanese. Hsiao and another Chinese official stated that negotiations have now been transferred to Nanking with Ariyoshi participating and that formation of a new regime in North China is postponed.

2. According to the interpretation of one local Chinese official, Chiang Kai-shek's speech of November 19 on foreign relations before the Kuomintang (presumably reported by Nanking) did not foreshadow surrender to Japanese demands but was a public notice of China's pacific intentions indicating that the National Government is prepared to discuss with Japan Sino-Japanese problems but that China will offer resistance and Japan will incur responsibility for overt aggression if Japan should attempt to force China to accept demands infringing territorial sovereignty or national authority.

Repeated to Nanking and Shanghai, by mail to Tokyo.

LOCKHART

793.94/7409a : Telegram

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

WASHINGTON, November 20, 1935—4 p. m.

178. Press despatches from Tokyo state that Foreign Office has issued denial that "the Japanese Government was in any way responsible for the autonomy movement" in North China.

Please cable text of such statement if issued and texts of other official Japanese statements relative to North China situation if and when made.

HULL

---

[45] Not printed.

793.94/7407 : Telegram

The Second Secretary of Embassy in China (Atcheson) to the Secretary of State

NANKING, November 20, 1935—6 p. m.
[Received November 20—10:35 a. m.]

94. 1. I am informed by a responsible official who is confidential assistant to Kung, Acting President of the Executive Yuan, that: (1) the Chinese Minister of War today signed an agreement with Japanese representatives covering the demilitarization of Hopei and other parts of North China; (2) the Japanese Ambassador now in Nanking today gave assurances that no Japanese military action would be undertaken in China except defensive action; (3) the Japanese Emperor is understood to have issued a rescript to the Army forbidding military action inside the Wall unless Japanese forces are threatened by Chinese military, the penetration of Central Government troops into certain areas to constitute such threat. (I have not been able to verify these statements from other sources.)

2. He stated that this meant the customs and salt revenues in the North and the Shanhaikwan-Peiping section of the railway would be saved, but it was nevertheless expected that an autonomous regime "having allegiance to the Government" would be established very soon. He stated to be correct reports that: (1) concerned officials in the North have not been able as yet to come to agreement regarding the leadership of such a regime; (2) former Anfu officials are intriguing in the matter, Wang I-t'ang being one; (3) Shang Chen is remaining in Paoting and Han Fu-chu for the time being in Tsinanfu; (4) General Tada found Han cold to his proposals.

3. The Japanese Ambassador is said by an official of the Foreign Office to be conferring with Chiang Kai-shek at this hour.

4. To the Consulate General [at] Shanghai for the Ambassador, Peiping and Tokyo.

ATCHESON

793.94/7590

Memorandum by the Ambassador in China (Johnson) [46]

SHANGHAI, November 20, 1935.

Sir Frederick Leith-Ross asked me to come to see him, and I found him in Room 624, Cathay Mansions, with the British Ambassador.[47] Leith-Ross began by saying that he wanted to discuss the political

[46] Copy transmitted to the Department by the Ambassador in his despatch No. 119, December 6; received December 30.

[47] Sir Alexander Cadogan.

situation, which, after all, was in our province, although it had become inextricably connected with the financial situation with which he was particularly interested. He asked us both what we thought of the situation. The British Ambassador stated that it was very difficult to foresee; personally, he was convinced that the Japanese Government would not wish to use forceful means. I told them both that I thought the situation was a very serious one; that I was convinced in my own mind that, whatever the Japanese Government might think, the military leaders who were now controlling Japan's destiny had set out upon a policy which was intended to eliminate every vestige of western influence in the political life of Asia, and that I believed this policy would be consistently, persistently, and ruthlessly pursued until it had been accomplished or until some force hitherto unseen had robbed the military of their present position of influence and their momentum. Leith-Ross and Cadogan agreed with my opinion. I stated that I had been informed in Nanking by an authority which I trusted (and not by the Foreign Office) that prior to Chiang Tso-pin's departure from Tokyo he had had a conversation or conversations with Hirota, who had outlined to him three principles which the four ministries of the Japanese Government chiefly concerned agreed should underlie Japan's policy toward China; that these principles were: (1) China must abandon the policy of playing one foreign nation against another; (2) arrangements must be made for free intercourse between the peoples of China and "Manchukuo"; (3) there must be cooperation or an alliance between China and Japan for the suppression of communistic influences in Asia. I stated that my information led me to believe that the Chinese Government was not opposed to these principles as principles, but that they were insisting on being treated as a sovereign power, and they asked the Japanese to implement these principles by laying down a concrete proposal setting forth in detail the manner in which the principles should be carried out, but that they believed that although the four ministries of the Japanese Government were in agreement in regard to these principles there was no agreement between the Japanese Foreign Office and the Japanese military as to how the principles should be carried out in their details. Sir Alexander interposed to say that he did not believe that the Japanese military wanted to put any concrete proposals before the Chinese. They wanted to leave the matter in the broadest terms possible in order that their hands might be free.

I stated that I was convinced that the Japanese military were exceedingly angered by the Chinese decree nationalizing silver and that they were convinced that this decree would not have been issued nor the step taken if they had not been given or promised a loan by Great

Britain and/or by the United States. Sir Alexander stated that this was apparently the case although he believed that Ariyoshi quite understood that no loan had been given or promised. I said that I did not believe that Mr. Ariyoshi's convictions counted very much in this situation. Sir Alexander agreed with this.

I stated that now, of course, it was very uncertain what the next move would be. The Japanese military were trying to force the Chinese leaders in north China to declare north China semi-autonomous, but that my information was that the Chinese were hesitating and proving themselves less tractable to this idea than the Japanese had hoped. I said that I felt quite certain that Chinese leaders had observed with interest the train of events in Europe in regard to the imposition of sanctions by the League and that they had observed with equal interest the proclamation of neutrality by the United States in the Italo-Ethiopian dispute,[48] and that it was within the realm of possibility that the Chinese might call for a showdown on the part of the Japanese and force the Japanese to act, believing that if the Japanese would take forceful measures, amounting to an invasion of Chinese soil and an armed clash between the Chinese soldiers and the Japanese, they would be able to present a problem in all respects similar to the Ethiopian problem, with the expectation that the world would react in a similar way. Sir Alexander stated that in an interview which he had had with Chiang Kai-shek he had been subjected to a series of questions regarding the League's attitude in the Ethiopian matter, indicating a very live interest there, and he was prepared to agree with my analysis.

Sir Alexander stated that he was leaving for Peiping this afternoon. Sir Frederick said that in a few days he was going to Tientsin to inquire into the currency situation there and would then go to Peiping.

NELSON TRUSLER JOHNSON

793.94/7411 : Telegram

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

NANKING, November 21, 1935—10 a. m.
[Received November 21—6: 48 a. m.]

96. This office's 94, November 20, 6 p. m.

1. Ariyoshi and Chiang conferred for over 3 hours last evening after which the former told an American news correspondent that Chiang had given him assurances that no untoward anti-Japanese incidents would occur in North China. Chinese Foreign Office

[48] See vol. I, pp. 594 ff.

spokesman told the same correspondent that Chiang said he was in constant communication with Chinese officials in the North, all of whom were loyal, and that if any unfortunate situation should threaten he personally would attend to it. The correspondent said both Japanese and Chinese officials seemed pleased over results of the conference and he gained impression that some compromise had been achieved which had averted the crisis for the time being.

2. Repeated to the Department, Shanghai for the Ambassador, Peiping and Tokyo.

PECK

793.94/7412 : Telegram

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

TOKYO, November 21, 1935—noon.
[Received 1:05 a. m.]

213. Department's 178, November 20, 4 p. m. So far as the Embassy has been able to learn no such statement has been issued by the Foreign Office nor have there been official pronouncements of a like nature. It has been the practice of the Foreign Office spokesman to respect foreign correspondents and answer or parry their questions. Yesterday he seems to have been in a communicative mood and told the assembled newspapermen on his own responsibility that the new regime in North China would probably resemble the Canton government in being a sort of autonomous government but that of course the whole matter was a domestic Chinese question. The fact of Japanese "assistance" was not denied.

Differing versions of this interview have appeared in the local press and were cabled to the United States. None of the correspondents recall having cabled the wording quoted by the Department but it is possible that the expression crept in during the course of distribution.

NEVILLE

793.94/7414 : Telegram

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

NANKING, November 21, 1935—2 p. m.
[Received November 21—10:30 a. m.]

97. Our 94, November 20, 6 p. m. and 96, November 21, 10 a. m.

1. Foreign Office spokesman who was apparently under instructions to give out only official versions, this morning described the Ariyoshi-Chiang conference to an officer of the Embassy in terms of Reuter's despatch which is similar to telegram No. 96 under reference. While

avoiding categorical affirmation or denial of report mentioned in our 94, the above-mentioned Japanese Ambassador gave Chiang assurance that no Japanese military action would be undertaken in China except defensive action, he said that the Japanese were restrained from pressing with force for the creation of an autonomous North China by reason of a newly published profession of disassociation from the autonomy movement. He denied that the Chinese on their part had made the reported agreement to demilitarize Hopei and other parts of the North as a *quid pro quo* to a cessation of Japanese military pressure and said that at no time had the Japanese military in the North delivered any ultimatum concerning their autonomy scheme.

2. He said Sung Cheh-yuan as well as Han Fu-chu and Shang Chen had declined to participate in the scheme but doubted whether the scheme had actually collapsed. He avoided comment on report that Sung (see Peiping's 163, November 20, 4 p. m.) had been ordered by Chiang to cease negotiations with the Japanese in the North.

3. He confirmed as true Rengo's despatch from Tokyo November 19 to the effect that the Chinese Chargé d'Affaires had indicated to the Foreign Office the Chinese Government's willingness to discuss Hirota's three-point program. He said these matters had been under discussion between the two Governments for some time and this report did not mean that China is prepared to give them favorable consideration.

4. Repeated to Department, Peiping and Tokyo. By mail to Shanghai for the Ambassador.

PECK

793.94/7415 : Telegram

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

PEIPING, November 21, 1935—5 p. m.
[Received November 21—10 : 45 a. m.]

166. Embassy's 163, November 20, 4 p. m. Activities in North China with regard to the intended regime appear to have been suspended presumably awaiting outcome of conversations at Nanking. Doihara and Sung are understood to be in Tientsin, the latter in seclusion while Han is still at Tsinan and Shang Chen at Paoting. The opinion gaining ground that Doihara perhaps went further in the North China question than the officers to whom he is supposed to be responsible intended or desired; that he was misled by Hsiao Chen-ying and other ambitious representatives of North China leaders with regard to the degree of agreement to which the latter

could be brought; that their negotiations went considerably further than these leaders would accept unless forced to; and that Sung welcomed Chiang Kai-shek's orders to abandon negotiations. What influence Tokyo may have had in the recent change in the situation is still unknown as are the next measures which Doihara and officers of his type may take to separate North China from Nanking.

Repeated to Nanking and Shanghai, by mail to Tokyo.

LOCKHART

793.94/7425 : Telegram

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

WASHINGTON, November 22, 1935—2 p. m.

351. 1. On November 20 the British Ambassador called, evidently under instruction, on the Under Secretary and inquired what decision, if any, we had arrived at in regard to the new regime in North China. The Under Secretary replied that our reports from the Far East did not as yet give a clear picture as to whether the new regime would be set up or what form it would take and that therefore we had not arrived at the point of determining what action, if any, should be taken. The Under Secretary read to the British Ambassador excerpts from our telegraphic reports from the Far East and the Ambassador stated that it was clear that there was no finality, as yet, to the movement in North China. The Under Secretary expressed to the British Ambassador our anxiety in regard to the whole outlook and indicated that he was glad to keep in touch with the Ambassador.

2. Associated Press report from London states that informed sources "hinted that Great Britain had played a strong diplomatic hand both in Tokyo and in Nanking to check the move for an autonomous North China." The report indicates that the British may have used their influence to stiffen the stand of Chiang Kai-shek and that the British exerted diplomatic action in Tokyo to check the handling of the situation by Japanese army leaders in China. Please endeavor to ascertain informally and discreetly whether there is any basis in fact for this report.

HULL

793.94/7420a : Telegram

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

WASHINGTON, November 22, 1935—5 p. m.

179. Department's 177, November 19, 5 p. m., second paragraph. Press despatches from Tokyo report at considerable length in regard

to recent developments affecting North China. Please realize that, although press despatches are helpful, the Department in making estimate of the situation must rely for information and comment in regard to events and occurrences in Japan primarily on the Embassy. The Department would appreciate receiving from you at your earliest practical convenience a telegram setting forth such reliable information as you may be able to obtain in regard to the North China situation, your analysis of that situation, and your estimate of probable future developments.

HULL

893.01 Outer Mongolia/40 : Telegram

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

Moscow, November 22, 1935—11 p. m.
[Received November 22—5 : 55 p. m.]

501. Litvinov said to me today that in the immediate future the negotiations now in progress between "Manchukuo" and the "Mongolian Republic" would be broken off. He stated that he believed the Japanese would immediately provoke frontier incidents but added that the "Mongolian Republic" would continue to refuse to receive a representative of "Manchukuo" in Ulan Bator. I asked Litvinov if he feared that such frontier incidents might be a prelude to a Japanese drive against Outer Mongolia. He replied that he was convinced that the Japanese would be so busy in North China for a long time to come that they would be unable to make any serious move against the "Mongolian Republic".

BULLITT

793.94/7423 : Telegram

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

PEIPING, November 23, 1935—noon.
[Received November 23—9 : 45 a. m.]

172. Without knowing what has taken place during the past few days at Nanking it would seem that Chiang Kai-shek has four courses to choose from:

(1) A compromise over the North China situation based upon [*by the*] creation by the National Government of an anticommunist commission of North China whose members would be appointed by Nanking which would include the leaders of North China and which would not have an autonomous character in both economic and financial aspects which the commission would have had if Doihara's recent activities had been completely successful;

(2) Capitulation by Chiang to Japanese desire for an autonomous North China;
(3) Refusal by Chiang to compromise, coupled with intention to resist with force if aggression should extend to Central China; and
(4) Resistance to Japanese aggression, this resistance to include North China in the sphere of resistance.

2. The first course might be a compromise sufficient to save the face of the Japanese military and the North China leaders and the Japanese would perhaps agree to it as they would presumably regard it a makeshift arrangement preliminary to a real autonomy. A serious question appears to be whether this course (or the second) would not so seriously affect the prestige of Chiang Kai-shek and the Kuomintang that their continued existence in power would be threatened by disaffected elements within China united by such a course. The questions raised by the third and fourth courses are how long and how effective could Chinese resistance be maintained and whether a resistance that did not include North China would not perilously injure Chiang's prestige.

3. Rumors from Nanking that some sort of a military agreement has been made between Chinese and Japanese authorities (rumors which are credited but not confirmed by local Chinese observers) would indicate if true that conciliation is to continue. On the other hand Chiang's sudden and temporarily effective interference in Doihara's activities and Chiang's alleged military preparations are indications that resistance in some form is being considered.

4. The attitude of Tokyo and the compliance of the Kwantung Army to Tokyo direction are of major importance. If [*It*] is impossible to judge here whether the Japanese military will agree to any course which will not be humiliating to Chiang if he accepts it. An abortive attempt to demonstrate in favor of an autonomous movement allegedly occurred at Tientsin on November 21. There are reports that some Japanese military may make use of plain-clothes men in Tientsin or of such discontented elements as those led by Liu Kwei-tang and Shih Yu-shan to create a situation leading to autonomy.

Repeated to Nanking and Shanghai, by mail to Tokyo.

LOCKHART

793.94/7422 : Telegram

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

TOKYO, November 23, 1935—4 p. m.
[Received November 23—6:45 a. m.]

214. Department's 179, November 22, 5 p. m. During the past few weeks it has been extremely difficult to obtain information from the Japanese authorities. Persons in responsible positions have been either

uncommunicative or difficult of access. Foreign Office officials have consistently stated that there has been no new policy in China or have turned aside inquiries in regard to the situation in North China by the bland remark that the movements there represented the will of the people which the Japanese should respect. There has been much discussion of giving "aid to the struggling masses of North China" but little or no information as to the concrete steps to be taken. The Embassy has also tried to obtain information through the Japanese Army and Navy who have proved rather reticent.

Certain factors seem clear but they are largely inference and judgment. As the Department is aware the Kwantung Army has been forbidden to go south of the Wall without express imperial order and the Japanese garrison in the Tientsin-Peiping region is not large enough to make a military movement. In the absence of military activity by the Nanking forces towards the North there is no reason to believe that the Japanese will initiate military action. The reason for this appears to be largely financial. The Finance Minister and the business community do not want to spend any more money in China just now. This feeling is shared to some extent by the army authorities here in Japan whose interest in China is conditioned somewhat by their fears of Russian activity.

Still despite the fact that an autonomous government in North China has not yet been organized it seems premature to assume that the Japanese are reconciled to the continued authority of Nanking in North China. They probably wish for some regime with which they can treat without continual reference to Chiang. It is difficult to estimate here just what they will do to bring this about but in the absence of some incident it seems unlikely that they will take military action at this juncture. In any event, there is no prospect of the Japanese getting out of North China and we must expect a series of incidents there and elsewhere on the mainland until they meet some force that will stop them. The Government here seems helpless at times in the face of situations that arise or are created by Japanese military, economic or political interests in China.

I shall endeavor to obtain more information and to report more fully later.

Repeated to Peiping.

NEVILLE

793.94/7427 : Telegram

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

TIENTSIN, November 25, 1935—noon.
[Received November 25—7 : 30 a. m.]

This morning about 100 fully armed uniformed soldiers arrived in trucks at a lecture hall on main street in native city which is serving

as the headquarters of the so-called autonomy movement in this city. The trucks bore banners marked "The death-defying army for the self-defense of the masses of North China" and large signs over the door of the hall named it the headquarters of the army. At the same time a parade of about 50 Chinese carrying banners urging autonomy for Hopei passed toward the hall. Handbills of the movement are being widely distributed and posters urging autonomy for North China have been posted on walls throughout Chinese city and Japanese concession.

Chinese police apparently are making no effort to interfere.

2. Armored cars were seen in front of the Peace Preservation Corps in Tientsin which is heavily guarded. Growing tension is evident. True reading to the Embassy.

CALDWELL

793.94/7430 : Telegram

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

PEIPING, November 25, 1935—noon.
[Received 2:20 p. m.]

175. Embassy's 173, November 24, 11 a. m. [*p. m.?*][*] Yin Ju-keng and other officials of the demilitarized zone issued an announcement last night of the establishment of the Eastern Hopei Communist Northern [*Prevention?*] Autonomous Council to govern the 22 hsien of the demilitarized zone by means of a commission of nine members including the commanders of five detachments of the Peace Preservation Corps of the zone. A circular telegram to the same effect was simultaneously sent to the leading offlcials of North China. The announcement contained a strong denunciation of the Kuomintang for its (1) maladministration, (2) assisting class conflict and bringing on the terrors of communism, (3) destruction of the ancient Confucian musts, (4) responsibility for famines, (5) blundering foreign policies and (6) financial errors. The announcement states that from today the demilitarized zone will be separated from the Central Government and will be beginnnig of a federation of the [Northern?] provinces.

2. It is presumed that Yin Ju-keng is making this move not only because he is exceptionally pro-Japanese allegedly but because his telegram of November 15 (Embassy's 57 [*157*], November 18, 6 p. m.) which critized the Kuomintang probably ended his chances of getting any job under the Kuomintang in the future.

[*] Not printed.

3. According to reliable informants the situation in Tientsin is tense. It is expected that a subversive movement may develop there shortly looking toward creation of autonomy in North China. A meeting was reputedly held November 23 at Chih Yu-san's house in this connection and handbills were distributed yesterday denouncing the Kuomintang. There were seen this morning several trucks containing armed soldiers with inscriptions on the trucks to the effect that they belonged to "the death-defying army" of an autonomous government.

4. From all information obtainable by the Embassy it appears that autonomy is desired only by certain Japanese and a few self-interested Chinese. However, as Chinese troops cannot enter the demilitarized zone of Tientsin the present situation will presumably be difficult for the Chinese authorities to deal with.

Repeated to Nanking and Shanghai, by mail to Tokyo.

LOCKHART

793.94/7431 : Telegram

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

PEIPING, November 25, 1935—4 p. m.
[Received 7 : 50 p. m.]

176. Embassy's 175, November 25, noon. The new regime was inaugurated this morning. The participants passed four resolutions as follows: (1) to organize the new administration; (2) to free the area under the present regime from the Kuomintang; (3) to maintain peace and order; and (4) to protect the lives and property of foreigners. Yin Ju-keng informed a local foreign press correspondent that his regime will collect all taxes except salt and customs, that a committee is being organized to administer the railways (probably this means control of revenues primarily), that there will be no interference with the Kailan Mines, that he has no Japanese advisers as yet, and that he has at his command 100,000 rifles (mostly irregulars) to defend the area.

2. This correspondent said that Tungchow, near Peiping where the inauguration took place, was quiet, with the people seemingly uninterested, that Yin and his Chinese colleagues seemed not very sure of themselves and that a number of Japanese in ordinary clothes were in evidence assisting Yin.

3. Doihara returned to Peiping from Tientsin this morning. Subversive handbills were distributed this morning in Peiping.

Repeated to Nanking and Shanghai; by mail to Tokyo.

LOCKHART

793.94/7429 : Telegram

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

TOKYO, November 25, 1935—6 p. m.
[Received November 25—2 : 55 p. m.[50]]

216. In conversation with the Vice Minister for Foreign Affairs today he made the following oral statement.

1. The present negotiations with Nanking are the result of conversations which the Minister for Foreign Affairs had with the Chinese Ambassador before the latter returned to China to attend the meeting of the Kuomintang. The Ambassador wished to improve relations between Japan and China, a project with which the Minister for Foreign Affairs is in hearty approval. The Ambassador then returned to Nanking and discussed the matter with the officials of the Chinese Government with the result that there were discussions between Japanese and Chinese officials in Nanking and finally Ariyoshi began his conversations with Chiang Kai-shek. The basis of the discussions is three sided. First, the suppression of anti-Japanese propaganda which stirs up the populace to no good purpose; second, the acceptance of the fact of "Manchukuo" which may not necessarily mean diplomatic relations; and finally, means of controlling Communist or Red propaganda which is becoming a serious question both in China and in Manchuria. These Sino-Japanese discussions were interfered with by the attempted assassination of Wang Ching-wei, the murder of a Japanese sailor and the wrecking of a Japanese shop in Shanghai all of which the Japanese have reason to believe are connected. Their reasons are that they know that the Comintern meeting in Moscow, to whose activities both the Japanese and American Governments took exception, considered the question of the Red armies in China and decided to support in every way possible the anti-Japanese movements in China in addition to furthering communistic movements there because they consider the Japanese the greatest menace to Red action in the Far East. However, the Japanese were determined to treat the Shanghai affairs as purely local matters and the conversations continued. They were again disturbed by the Chinese announcement of the nationalization of silver.

This had a most unfortunate effect because it put the North China leaders in a panic and some of them went to the Japanese military for advice. It put new life into the autonomy movement which has long existed in a dormant condition.

The North China autonomy movement is a matter with which the Japanese Government does not wish to be concerned but it has placed

[50] Telegram in two sections.

the Japanese in an embarrassing position because the Chinese leaders in the North have represented to Nanking that the Japanese are urging them to declare autonomy while at the same time these same leaders assure the Japanese that they would declare autonomy over night if it were not for the negotiations that the Japanese are carrying on at Nanking with Chiang Kai-shek which give added strength to the objection of the Central Government. Still the Japanese Government will continue to negotiate with Chiang and will not allow local issues to obscure their object which is to come to a settlement with the Chinese Government along the lines indicated above. At the same time he remarked parenthetically the Japanese feel that any domestic settlement which Chiang may come to in the matter of North China autonomy must take account of (1) the general sentiment in that region which is decidedly opposed to direct Nanking Government, (2) the propinquity of "Manchukuo" and its border problems, (3) the large Japanese interests in the North China area although the latter is a contributing rather than a deciding factor in the situation. He believed that a China centrally governed like Japan or France was an impossibility. The Vice Minister said that he felt hopeful rather than discouraged because he felt that the Chinese now realize the need for an understanding with Japan, an attitude they have not taken hitherto. He said that at no time in the recent discussion has the Japanese Government contemplated the use of armed force although they might be compelled to do so if the Chinese troops moved north. The wild speeches attributed to military officers were largely fictitious he said although he would have to admit that there are some officers with very little discretion. More than that, there is a large element of troublesome Japanese who stir up issues that have no legitimate place in the purposes of the Japanese Government. He said that Chiang was the strongest man in China and that they would continue to work with him. Still he has many enemies and is frequently driven to rather questionable expedients like every man in high political office except that conditions in China are worse than in other countries.

2. The foregoing is the first statement I have been able to obtain from a Japanese official. The Vice Minister had obviously thought the matter over carefully and gave every evidence of speaking frankly. The Department will note that there is no sign of easing the Japanese demands but on the other hand the general attitude is not as uncompromising and threatening as was indicated by the reported statements of Japanese Army officers in China.

Repeated to Peiping.

NEVILLE

793.94/7434 : Telegram

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

NANKING, November 26, 1935—10 a. m.
[Received 10 : 40 a. m.]

108. 1. It is understood that discussions of Sino-Japanese issues are proceeding between Tang Yu-jen and Suma. Both Foreign Office and Japanese Embassy officials are reticent concerning these discussions and the general impression is that they are an attempt on the part of the Japanese to bring the Chinese to a definite commitment, the Chiang-Ariyoshi conversation of November 20 having been unsatisfactory. Developments in Hopei seem so far to have been officially ignored and there is no indication that the Chinese Government has decided what action if any should be taken. According to one well-informed Chinese source, neither the Chinese nor the Japanese are yet certain of the intentions of Sung Che-yuan and difficulty is anticipated with Hsiao Chen-ying, Chairman of Chahar, who is considered the chief Chinese conspirator for autonomy in the North.

2. A plausible explanation of the autonomy movement's temporary collapse on November 19–20 given confidentially by a well-informed Chinese official is as follows: Reports to Chiang by his intelligence service of indecision within the Japanese Cabinet which happened to coincide with a movement by Sung's subordinate officers to defeat Hsiao's efforts to persuade Sung to fall in with Doihara's schemes, influenced Chiang Kai-shek to hazard "calling Doihara's bluff" by ordering Sung to discontinue negotiations with the Japanese officer. Doihara's threat of military invasion was thereupon repudiated by the Japanese Government because it realized that he was failing to persuade the North China leaders to go forward with his scheme. The Government's reasons for its about-face, the informant conjectured, was (1) a desire to disassociate itself from the conspiracy because of possible action by the League similar to the application of sanctions against Italy and (2) probable adverse effects at the forthcoming Naval Conference [51] at which Japan desires to press successfully its demand for parity. According to the official quoted in my 94, November 20, 6 p. m., orders to the Japanese troops not to proceed beyond Shanhaikwan were limited in time until after the Naval Conference and included also a restriction against military action (except defense action) in the Shanghai area.

3. Paraphrase by air mail to Peiping, ordinary mail to Tokyo.

PECK

[51] For correspondence concerning the London Naval Conference, see vol. I, pp. 64 ff.

793.94/7439 : Telegram

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

NANKING, November 26, 1935—noon.
[Received 4:05 p. m.[52]]

109. 1. An officer of the Embassy was confidentially informed this morning by the official quoted in our 94, November 20, 6 p. m. that: (1) the Chinese Government will not take any overt action against Yin Ju-keng's "autonomous government" in East Hopei because it does not wish to be in the position of violating the Tangku Truce; (2) it is fully prepared, however, to resist by arms any interference with Chinese administration south of Hopei; (3) for this purpose the Government has (*a*) secretly placed Han Fu-chu in charge of military affairs for Shantung, Honan and Anhui, (*b*) has delivered to him $10,000,000 and 10,000,000 rounds of ammunition, and (*c*) has continued quietly to place troops at strategic points for his disposal in case of necessity, there being now almost 250,000 men in the provinces of Anhui, Chekiang and Kiangsu, about 90,000 in the "Nanking area" some 30,000 square kilometers in size, and over 30,000 along the Lunghai Railway. The informant stated that the Government would hold to the agreement made about November 19 between Ho Ying-chin and Japanese representatives (see our 94) that no Central Government troops would be sent north into Hopei providing the Japanese made no intramural invasion and he emphasized that none but defensive action was contemplated and then only in case of necessity.

2. He stated that the Government expected an expansion of the autonomy movement in North China, both Hsiao Chen-ying, Chahar Chairman, and Chin Te-chun, Peiping Mayor, were known to be furthering Japanese plans in this respect, and that the return of Sung Cheh-yuan and Doihara to Peiping reported in the press indicated that Sung was capitulating to the Japanese, there being nothing else that he could do.

3. The informant stated that the Ariyoshi-Chiang conversation of November 20 had been very unsatisfactory; that Suma was now pressing Hirota's three-point program and was asking for "concrete proposals" from the Chinese Foreign Office to carry the program into effect. He said that the Chinese were giving noncommittal replies because they were not prepared to make any such proposals or to accept the program.

4. He stated that Ariyoshi and Suma had protested strongly to Chiang against the nationalization of silver, accusing the Chinese of conspiring with the British; that while the monetary program was

[52] Telegram in two sections.

in general progressing favorably, the Japanese had succeeded in preventing the transfer of silver from North China; and that while Yin Ju-keng had announced he would not interfere with customs and salt revenues, it was anticipated that with the expansion of the "autonomy movement" the revenues from North China amounting to 22% of the national revenue would be lost to the Government.

5. To Tokyo by mail.

PECK

793.94/7432 : Telegram

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

NANKING, November 26, 1935—3 p. m.
[Received November 26—9 : 10 a. m.]

111. 1. According to information received from the Foreign Office the Chinese Government, following a special meeting of the Executive Yuan today, has (1) ordered local authorities in the North to arrest Yin Ju-keng as a rebel, (2) abolished the Peiping Branch Military Council, (3) appointed Ho Ying-chin as its resident representative in Peiping, and (4) Sung Che-yuan as Pacification Commissioner for Hopei and Chahar. The warrant for Yin's arrest, it is stated, will be issued tomorrow morning.

2. Last three steps have the appearance of being a form of compliance with the suggestion made to Chiang by the Japanese as reported in my [103,] November 22, 10 a. m.,[53] paragraph 2, first sentence.

3. Repeated to Department and Peiping.

PECK

793.94/7435 : Telegram

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

PEIPING, November 26, 1935—4 p. m.
[Received November 26—12 : 25 p. m.]

177. Referring to the Embassy's No. 176, November 25, 4 p. m. It is reliably reported that attempts in Tientsin to create a movement toward autonomy have failed. Some opposition to the attempts was shown by Chinese and no desire for autonomy on the part of the Chinese people was evident. The active participants were apparently low class Chinese who were paid by self-interested persons. Presumably some Chinese ex-officials and unemployed militarists had hoped to profit from the situation. Tientsin is understood to be quiet today.

---

[53] *Post*, p. 644.

2. Sung, Hsiao, and Chin arrived in Peiping from Tientsin yesterday. Doihara is still here. The city is quiet. Unsubstantial rumors have revived to the effect that Sung will declare autonomy of Chahar and Hopei which would then absorb the autonomous regime of the demilitarized zone. There are no new known developments with regard to the activities of Yin Ju-keng.

3. A Chinese official well known to the Embassy and regarded as reliable returned today from a 4-day visit to Tientsin. He states that there were no responsible Japanese behind the recent disturbances in Tientsin although irresponsible Japanese may have been connected with them; that Sung will not declare autonomy but that the National Government will form some sort of a commission for North China; that Sung was ordered last night by Nanking to send some troops to Tungchow to watch the situation there, the troops having gone this morning; that in his opinion Yin Ju-keng's purpose is to make some money and then retire; that Yin's control of the railways will be purely nominal, an arrangement having already been reached with the managing director of the Peiping–Mukden line whereby an office will be established at Tangshan as a face-saving device for Yin and that the Japanese are not supporting Yin as yet.

Repeated to Nanking and Tokyo.

LOCKHART

893.01 Outer Mongolia/45

Memorandum by the First Secretary of the American Embassy in Japan (Dickover) of a Conversation With the First Secretary of the Soviet Embassy (Deitchman) [54]

[TOKYO,] November 26, 1935.

In the course of a general discussion today in regard to the North China situation, I asked Mr. Deitchman if the Soviets did not think that the Japanese might be impelled in part, in their efforts to encourage an autonomous state in North China, by a desire to establish a bulwark against the penetration of Communist influence into China, and perhaps, to assure them of a friendly field of operations in case they should find it desirable to oppose the Soviet Union by force of arms at some time in the future. Mr. Deitchman said that the Japanese undoubtedly want to establish a better field for operations against the Soviets, but that in his opinion the Japanese are actuated more, in their activities in North China, by plain imperialism and a desire for economic expansion. He said that the Japanese understand very well that the Soviet Union wants only peace, but is prepared

[54] Copy transmitted to the Department by the Chargé in Japan in his despatch No. 1566, November 27; received December 19.

to fight at any time to defend its territory and rights. He said that this is obvious in the way in which the Japanese military treat Outer Mongolia, as compared to the way in which they treated Manchuria and are now treating China.

Mr. Deitchman then discussed the Soviet Union's attitude toward Outer Mongolia. He said that the Soviet Union considered Outer Mongolia as an independent country, but weak and in need of help. The Soviets were therefore helping the Mongolians, sending them teachers, military instructors, engineers and medical men—the latter to help the Mongolians "to liquidate their syphilis". But, he said, the Soviet Union is not "neutral" toward Outer Mongolia. That territory represents a great potential danger to the Soviet Union and especially to the Trans-Siberian railway, as there is a very long border between Siberia and Outer Mongolia and the railway is not far from the border. If Outer Mongolia should happen to fall into the hands of a country (such as Japan) which is inimical to the Soviet Union, the latter country would be greatly endangered. Consequently the Soviet Union cannot remain "neutral" as regards Outer Mongolia. But, he said, the Soviet Union does not wish to possess Outer Mongolia. "We have no appetite for more territory".

E[RLE] R. D[ICKOVER]

793.94/7440 : Telegram

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

PEIPING, November 27, 1935—10 a. m.
[Received November 27—6 : 30 a. m.]

179. Three hundred and fifteen Japanese infantry troops have arrived in Peiping during the past 2 days and are billeted at the Japanese Club which is in the city outside of the Legation quarter. (The regular Japanese garrison numbers 321 and is billeted in the Japanese Embassy guard.) The new arrivals are without special equipment.

2. Reliable information has just been received that a Japanese troop train of 17 cars passed through Shanhaikwan this morning from the north, destination at present unknown.

Repeated to Nanking and Tokyo.

LOCKHART

793.94/7443 : Telegram

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

TIENTSIN, November 27, 1935—11 a. m.
[Received November 27—10:15 a. m.]

According to a reliable report Japanese troop train of 17 cars containing probably 2,000 men passed through Chinwangtao at 7 a. m. today en route to Tientsin.

Japanese troops in Peiping and Tientsin and at railway stations between Shanhaikwan and Peiping have been gradually increased within the past week, 200 having arrived yesterday in Peiping, and 400 in Tientsin.

International racecourse here is being leveled for use as Japanese military aviation field. Japanese Army plane yesterday landed crew who measured field and are superintending work of Chinese laborers. It is reported that 40 or more Japanese aircraft will arrive there within a few days.

Strict martial law enforced in Chinese controlled areas again last night. City quiet but very tense feeling prevails among Chinese.

True reading to the Embassy.

CALDWELL

793.94/7441 : Telegram

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

TOKYO, November 27, 1935—1 p. m.
[Received November 27—7:50 a. m.]

219. 1. The announcement of the creation of the autonomous state in the demilitarized zone has not aroused much attention or enthusiasm in Japan. Some observers believe that the autonomous state was created on the insistence of the Japanese military partly because they hope that the autonomy movement will spread to other parts of North China and partly to save face with the Japanese people after they had been outmaneuvered by Chiang Kai-shek in their attempts to create the five-province autonomous state.

2. The vernacular newspapers state that the Foreign Office does not welcome the forthcoming visit of C. T. Wang[55] to Japan and report the Foreign Office attitude as follows:

(*a*) The appropriate authorities are already negotiating in Nanking and Tokyo in regard to Sino-Japanese relations and therefore Wang's visit will be of little avail in adjusting such relations.

[55] Former Chinese Minister for Foreign Affairs.

(*b*) Wang is considered to be very anti-Japanese and consequently he is the worst person next to Chang Hsueh-liang to send to Japan on such a mission.

(*c*) The fact that Wang is traveling to Japan on the ship with Vice President Garner and the Congressional party [56] inclines the Foreign Office to believe that his real purpose may be to endeavor to enlist American aid against Japanese pressure in China.

(*d*) Therefore the Foreign Office cannot respond to any proposals which Wang may make.

3. While the above may contain some newspaper embellishment it is believed to reflect to a certain extent the views of the Foreign Office at least as expressed by Amau.

Repeated to Peiping.

NEVILLE

793.94/7442 : Telegram

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

LONDON, November 27, 1935—1 p. m.
[Received November 27—10:35 a. m.]

595. Foreign Office informed me today that they had sent a telegram to the British Chargé d'Affaires at Tokyo yesterday instructing him to request an interview with the Japanese Minister for Foreign Affairs and to point out to him that the British Government is greatly concerned at the conflicting and disturbing reports reaching London of Japanese activities aiming at administrative separation of North China. The British Government would welcome a frank statement of Japanese policy and assurances "that no action is being taken or intended at variance with the principles laid down in the Nine Power Treaty."

I have talked with the Associated Press reporter, referred to in paragraph 2 of your 351, November 22, 2 p. m., and consider his story based more on inference than actual statements. There is, however, some foundation for belief here that Sir Frederick Leith-Ross may have on his own initiative used his influence in conversation with Chiang Kai-shek.

BINGHAM

---

[56] After attending the inauguration of the Philippine Commonwealth Government at Manila.

793.94/7444 : Telegram

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

NANKING, November 27, 1935—2 p. m.
[Received November 27—1 p. m.]

113. My 111, November 26, 6 [*3*] p. m.

1. I asked Suma this morning what results he thought would follow steps taken by the Government on November 26. Brief summary of his comments follows: The measures in question are a "unilateral solution" of the problem presented by the Japanese Ambassador to Chiang Kai-shek on November 20 (see my 103, November 21 [*22*], 10 a. m.,[57] paragraph 2) and are not calculated to obviate future difficulties in Sino-Japanese relations. The appointment of Sung as Pacification Commissioner for Hopei and Chahar will not meet with acquiescence of Chahar Chairman Hsiao. While abolition of the Branch Military Council simplifies the situation somewhat the appointment of General Ho as Executive Yuan representative will merely restore unsatisfactory features of the regime of Huang Fu since Ho will have to appeal constantly to Nanking for instructions and the appointment does not meet the need for a special form of administration for the Peiping area as represented to Chiang Kai-shek by the Japanese Ambassador on November 20; moreover judging from the refusal of Ho to return to his Branch Military Council post in Peiping during the last 3 months it is doubtful whether he will accept this new appointment. The demand for autonomy in the Peiping area is upheaving and widespread and the Yin Ju-keng and Tientsin movements of November 24–25 were genuine manifestations of the popular desire for autonomy. Any attempt by Nanking to arrest Yin in order to succeed must involve force and although Suma has been earnestly endeavoring to ward off trouble, nevertheless, if these autonomy movements are suppressed by force serious trouble cannot but follow. The Government's measures of November 26 ignored financial maladministration in the Peiping area, for example, the use of Hopei provincial funds for the support of the forces of Marshal Chang Hsueh-liang.

2. Suma observed somewhat sarcastically that Leith-Ross happens to be in North China and is exhibiting great curiosity regarding events.

3. Repeated to the Department and Peiping, by mail to Tokyo.

PECK

[57] *Post*, p. 644.

793.94/7446 : Telegram

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

PEIPING, November 27, 1935—5 p. m.
[Received November 27—4:45 p. m.[58]]

182. Embassy's 179, November 27, 10 a. m. Japanese soldiers have gone to the strategic railway junction at Fengtai. They are said by the local Japanese Military Attaché to number less than one company and to be protecting communications to prevent removal of Peining[59] rolling stock by way of the Pinghan Railway. Some Chinese claim that the Chinese railway officials at Fengtai have been driven out. According to reports from Tientsin, some 400 Japanese troops arrived there yesterday and new detachments have arrived at various railway stations between Tientsin and Shanhaikwan. Two hundred Japanese troops arrived at Tientsin at 3 p. m. today and two hundred more are now on their way from Tientsin in the direction of Peiping. These are regarded as part of those troops which left Shanhaikwan this morning. The Japanese military took over yesterday the international race track at Tientsin and are today rapidly making it into an airfield. Reliable information about Japanese troop movements in the vicinity of Kupeikou is unobtainable.

2. Doihara is said to be still negotiating here with the Chahar clique. Sung's position has been strengthened by the abolition from [*effective?*] today of the Tientsin-Tangku Peace Preservation headquarters formerly under Shang Chen's control by the withdrawal of Shang's troops from Northern to Southern Hopei already begun and by the taking over of the Tientsin and Tangku garrison by Sung's men. The situation would be difficult to evaluate. This may be another demonstration of Japanese military force to induce the Chinese authorities to come to terms desired by the Japanese. However, the action at Fengtai and the making of an airfield at Tientsin seem to point perhaps to more than this. Another possibility is that stern military on the mainland have broken loose again as a result of exasperation engendered by such factors as (*a*) their failure to evoke an autonomous state in North China, (*b*) Nanking's stiffened attitude as indicated by the new monetary policy and perhaps indicated by Nanking's decisions reported in Nanking's 111, November 26, 6 [*3*] p. m., (*c*) Nanking's alleged continued evasiveness, and (*d*) reports of intended Chinese resistance. Another possibility notwithstanding

[58] Telegram in two sections.
[59] Peiping-Liaoning (Mukden).

its seeming improbability is that an understanding has already been reached between the Japanese and the National Government under which the Japanese troop movements would be permissible as means of meeting alleged communist threat from the northwest.

Repeated to Nanking and Tokyo.

LOCKHART

893.01 Outer Mongolia/41 : Telegram

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

PEIPING, November 27, 1935—6 p. m.
[Received November 27—8:55 a. m.]

183. Following telegram has been received from the Consul General at Harbin.

"52. November 27, noon. The Japanese Consulate General has confirmed press reports that the Manchuli conference has broken down and that the delegates are leaving. Apparently no agreement of any nature was reached. In a statement the Hsinking Foreign Office laid the responsibility for failure on Outer Mongolia and found 'no alternative but to act freely in the future'."

LOCKHART

793.94/7445 : Telegram

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

TOKYO, November 28, 1935—1 p. m.
[Received November 28—4:32 a. m.]

223. Peiping's 182, November 27, 5 p. m. Army authorities here inform Military Attaché that no additional Japanese troops have moved into North China nor do the Japanese anticipate the necessity for sending any in the immediate future. The military authorities stated also that the Kwantung Army has authority to move into the demilitarized zone without special orders from Tokyo but that movements beyond that zone require Imperial sanction.

Troop movements in North China are stated to be units of the North China garrison moving in connection with annual inspection.

The Army did not expect the independence move by five provinces but anticipated that move by Hopei, Chahar and possibly Shantung. The delay in the independence announcement by General Sung for Hopei and Chahar surprised the Army which is now confident that the announcement will be made soon. The delay in the independence announcement, the recent movements of Sung's troops into the demilitarized zone and their withdrawal on Sung's own initiative, are

gestures for the benefit of the Nanking Government and can be accounted for by Sung's delicate position.

Repeated to Peiping.

NEVILLE

793.94/7447 : Telegram

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

PEIPING, November 28, 1935—4 p. m.
[Received November 28—1 p. m.[60]]

185. Embassy's 182, November 27, 5 p. m. Two hundred more Japanese troops arrived at Tientsin later yesterday afternoon. It is not believed that these units are replacements. There are a few Japanese soldiers still at Fengtai. However, there are no reports today of further Japanese military movements. Passenger trains at least are running on schedule, although it is understood that care is being taken to prevent unusual removal of rolling stock southward from the Peiping-Mukden line.

2. It would now appear that the purposes of the Japanese troop movements have been, (1) to prevent rumored removal southward by Chinese of railway rolling stock, and (2) to frighten Nanking and/or North China leaders into agreement with Japanese wishes.

3. Responsible Chinese and Japanese say that Sung has declined Hsu's [*Nanking's?*] appointment as Pacification Commissioner of Chahar and Hopei. This is possible in conformity with Chinese courtesy but it seems more likely that he is dissatisfied with Nanking's recent effort to solve the North China situation. An official of the now defunct Military Council states that Sung is delaying acceptance until Shang Chen is out of office. Shang is understood to have already submitted his resignation as Provincial Chairman and it is expected that a member of the Chahar clique will take his place. Han and Yen are reported to have declined Sung's invitation to confer with him at Peiping. There is good reason to believe that Sung has an understanding with Yin Ju-keng. It seems improbable that Sung will delay much longer in declaring a regime of his own.

4. The Assistant Military Attaché, Takahashi, has been ordered home after less than a year at this post. Chinese sources claim the reason is that the Kwantung Army is dissatisfied with this Tokyo appointee.

Repeated to Nanking and Tokyo.

JOHNSON

---

[60] Telegram in two sections.

793.94/7448 : Telegram

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

NANKING, November 28, 1935—5 p. m.
[Received November 28—10:05 a. m.]

114. 1. The Embassy has just been informed confidentially by an authoritative source in the Foreign Office that the Chinese Ambassador at Washington will probably be instructed to call on the Secretary in connection with the North China situation.

2. The information stated that the temporary occupation of the Fengtai and the Peiping-Changyimen Railway stations by Japanese troops had been in the nature of a gesture on the part of the Japanese military, possibly by way of answering the Chinese Government for the latter's order for the arrest of Yin Ju-keng and the creation of the new post of Peiping officer of the Executive Yuan with Ho Ying-chin as its head, steps constituting an announcement by the Chinese Government that it repudiated the Japanese thesis that some kind of semi-independent administration must be set up in the North. He said that although Sung Che-yuan was refusing to accept the new appointment as Pacification Commissioner for Hopei and Chahar made November 26 and Shang Chen had tendered his resignation as Hopei Provisional [*Provincial?*] Chairman, the Foreign Office did not believe that the withdrawal of Japanese troops from the railway stations meant that any demands had been made and accepted in the North or that Sung had acceded to Japanese pressure that he head the "autonomy" movement. The Chinese Government, the informant stated, was continuing to urge Sung to take up the new appointment. He added that it was not known whether Ho would proceed to Peiping and pointed out that the post was a very unhappy one particularly since Ho was not liked by the Japanese.

3. He states that the status of the discussions between the Japanese and Chinese Governments had not changed since the Ariyoshi-Chiang conference of November 20; Chang Chun was now in Shanghai as Chiang's personal representative having further conversations with the Japanese Ambassador who would probably return soon to Nanking but no clear-cut results could yet be envisaged. The informant discounted rumors that Hirota would come to Nanking. Repeated to Peiping and Tokyo.

PECK

793.94/7442 : Telegram

The Secretary of State to the Chargé in Japan (Neville) [61]

WASHINGTON, November 29, 1935—3 p. m.

185. Under date November 27 the American Embassy at London telegraphed as follows:

[Here follows quotation of first paragraph of telegram No. 595, November 27, 1 p.m., printed on page 448.]

This morning the British Ambassador here gave us the same information.

In neither case was any suggestion made that this Government take similar or any action.

Department would welcome any comments which you may feel moved to make.

HULL

793.94/7450 : Telegram

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

PEIPING, November 29, 1935—4 p.m.
[Received November 29—10 : 55 a.m.]

186. There have occurred no important developments since the Embassy's telegram 185, November 28, 4 p. m. With reference to Tokyo's 223, November 28, 1 p. m., the office of the Military Attaché states definitely that the Japanese troops recently arrived at Peiping belong to the Kwantung Army. According to the *New York Times* correspondent who saw them detrain, at least a part of the troops recently arrived at Tientsin also belong to the Kwantung Army. And in today's *North China Star*, the Japanese military headquarters spokesman at Tientsin is reported as referring to the newly arrived troops as belonging to the Kwantung Army. These new troops are evidently a part of those troops which were reported in the Embassy's 151, November 16, noon, as arriving at Shanhaikwan from the north. The spokesman is further reported as saying that "there is no treaty restriction on the number of Japanese troops or troops of any other nation in North China." The Embassy believes that at least the major part of the troops which have arrived in North China during the last few days belong to the Kwantung Army. Japanese military are reliably reported to be interfering with southbound freight traffic on Peiping-Hankow Railway at Fengtai Junction.

[61] The same to the Ambassador in China as telegram No. 63, November 29, 2 p.m.

Japanese Assistant Military Attaché stated today that Doihara is seeing Sung frequently. It is reliably reported that Japanese pressure on Sung is severe.

Repeated to Nanking and Tokyo.

JOHNSON

793.94/7449 : Telegram

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

NANKING, November 29, 1935—5 p.m.
[Received November 29—10 : 15 a.m.]

116. In response to my request that he clarify newspaper reports regarding recent occurrences in North China, Vice Minister Tang Yu-jen this afternoon commented briefly as follows:

The Chinese Government has confidence in the loyalty of Sung Che-yuan and Han Fu-chu and is in constant confidential communication with them. Sung has not taken up his new appointment and probably fears that if he does the Japanese will redouble their efforts to induce him to declare autonomy of Hopei and Chahar Provinces. The Chinese Government has filed written protest with the Japanese Embassy against the recent military occupation of railway stations at Fengtai and Tientsin but contemplates no other immediate action towards Japan. The Government knows, however, that energetic efforts are being made to promote autonomy movements and that the Japanese militarists are deeply chagrined at failures hitherto. It is said that Doihara has vowed to commit hara-kiri if these efforts completely fail.

When China consented to withdraw two divisions from Hopei in June no undertaking was given not to send further troops into Hopei, but if the suppression of autonomy movements were to be attempted by force Sung's troops naturally would be used. Conversations are proceeding with the Japanese Ambassador in Shanghai and with Suma in Nanking. No early adjustment of Sino-Japanese controversies can be expected. Repeated to Department and Peiping.

PECK

893.00/13295 : Telegram

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

NANKING, November 30, 1935—10 a.m.
[Received 11 : 15 a.m.]

118. Note dated November 29 has been received from the Foreign Office reading in translation as follows:

"I have the honor to recall that because of his attempted revolt against the nation the National Government has issued an explicit

order that Yin Yu-keng, administrative superintendent of the Luanchow-Shanhaikwan area of Hopei Province, be dismissed from his post and arrested for punishment. All of his activities while he was administrative superintendent of the Luanchow-Shanhaikwan and Chunhsien-Chunyun areas which have not been approved by the former Political Affairs Adjustment Commission of the Executive Yuan at Peiping, the former Peiping branch of the National Army Military Affairs Commission and the Hopei Provincial Government, and all of his activities after his rebellion should be considered as of no effect."

PECK

793.94/7458 : Telegram

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

NANKING, November 30, 1935—11 a. m.
[Received November 30—6:24 a. m.]

119. My 116, November 29, 5 p. m.

1. An officer of the Embassy was informed by a responsible official of the Foreign Office this morning that in addition to protesting against Japanese military occupation of certain North China railway stations, the Foreign Office yesterday also lodged with the Japanese Embassy here a written protest against Japanese instigation of the so-called autonomy movement in the North. The official stated that this protest cited special instances of Japanese instigation, one being the visit to Paotingfu of three Japanese Army officers who, it is claimed, insisted upon talking with Shang Chen although Shang was ill in hospital, told him that both Sung Che-yuan and Han Fu-chu had agreed to the establishment of an autonomous five province regime and said that Shang was the only Chinese leader concerned who was withholding his cooperation from the scheme, these statements being entirely false.

2. Repeated to Department, Peiping and Tokyo.

PECK

793.94/7468 : Telegram

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

WASHINGTON, November 30, 1935—2 p. m.

64. Nanking's 114, November 28, 5 p. m., first paragraph. The Chinese Ambassador called yesterday on the Secretary and communicated information with regard to recent developments in the North China situation.

The substance of the comment made by the Secretary to the Ambassador was that this Government was watching the situation closely

and carefully considering the question of the course which it should take.

Repeat to Tokyo as Department's No. 187.

HULL

793.94/7457 : Telegram

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

PEIPING, November 30, 1935—2 p. m.
[Received November 30—9 : 30 a. m.]

188. The Embassy is reliably informed that Doihara informed Japanese pressmen last night at midnight that the Chahar clique decided yesterday to telegraph Nanking today that it has decided to declare autonomy of Chahar, Hopei, Peiping and Tientsin unless Nanking arrives at a complete understanding and unless Ho Ying-chin comes north. Doihara stated that the real meaning of the telegram is that autonomy will be declared. At 2 a. m. a Counsellor of Sung informed American press correspondent that Sung proposed at press conference that he telegraph today to Chiang Kai-shek, H. H. Kung and Ho Ying-Chin to explain that the North China situation is growing graver daily and that sentiment for autonomy is almost overwhelming and to ask for definite instructions how to deal with the situation. The Counsellor denies that this means that autonomy will be declared. However, as the statement about sentiment for autonomy appears to the Embassy to have no basis in fact, the Embassy is inclined to believe that Sung now intends shortly to break with Nanking. This is also the opinion of local leading educators who a few days ago issued a statement denouncing autonomy. Apparently the Kwantung Army's show of force has had its desired effect on Sung and his followers.

Repeated to Nanking and Tokyo.

JOHNSON

793.94/7456 : Telegram

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

PEIPING, November 30, 1935—4 p. m.
[Received November 30—6 : 51 a. m.]

189. According to American military authorities, 10 trains of Japanese troops arrived at Shanhaikwan this morning from the north.

JOHNSON

793.94/7459 : Telegram

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

NANKING, November 30, 1935—6 p.m.
[Received November 30—10 a.m.]

120. My [119,] November 30, 11 a. m. In answer to my request for information, Hsu Mo [62] told me this afternoon that for the moment everything depends on the ability of Sung Che-yuan to resist the intrigues of Japanese military officers to promote a declaration of an autonomous state and that while the Government is encouraging him to continue such resistance it is frankly not confident how long he will hold out. More confidence seems to be felt in the stamina of Yen and Han Fu-chu and Shang. Hsu said that if an autonomous state is declared the authorities will endeavor to suppress it and if the Japanese inject troops into North China the Government will oppose them with armed force. He asserted that the protest sent to the Japanese Embassy a day or so ago against Japanese interference in domestic affairs of China mentioned Doihara by name and the relations between Japan and China had reached a critical stage.

When I thanked Hsu for complying with my request for information he said that he was glad to inform me of the position of the Chinese Government but naturally he would like to receive whatever information I could give him concerning the attitude of the American Government toward the activities of the Japanese military in North China. I replied that I had seen no recent communications from Washington and I thought that the dominant purpose of the American Government at present, as partially evidenced by the neutrality legislation of last August, was to avoid danger of being involved in any war.

Repeated to Peiping and Tokyo.

PECK

793.94/7460 : Telegram

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

NANKING, December 1, 1935—9 a.m.
[Received December 1—7 a.m.]

121. Ho Ying-chin, appointed Executive Yuan representative in Peiping, accompanied by Chen Yi, Provincial Chairman [of] Fukien, and Hsiung Shih-hui, Provincial Chairman [of] Kiangsi, left Nanking by special train November 30, 10 p.m. for Peiping to deal with Sino-Japanese relations.

Repeated to Peiping.

PECK

---

[62] Chinese Political Vice Minister for Foreign Affairs, acting for the absent minister.

793.94/7613

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

No. 49 NANKING, December 1, 1935.
[Received December 31.]

SIR: I have the honor to state that Mr. and Mrs. William Allen White, of Emporia, Kansas, are now my guests in the Embassy in Nanking. In view of Mr. White's prominence as an editor and author and his interest in political affairs in the Far East, on November 30 I asked and received permission to introduce him to Dr. Hsu Mo, Political Vice Minister for Foreign Affairs.

Dr. Hsu Mo inquired what American newspapers Mr. White was representing and Mr. White said that he was editor of the *Emporia Gazette* and correspondent, on occasion, for the North American Newspaper Alliance, a chain of newspapers covering the entire United States.

Dr. Hsu Mo had evidently given some thought to the remarks which he made to Mr. White. Ordinarily Dr. Hsu Mo is extremely cautious, not to say secretive, in his observations concerning international relations. In what he said to Mr. White he was very outspoken in his denunciation of Japanese activities in China. This seemed to me strong evidence that the Chinese Government had almost reached a decision to abandon the "conciliation policy" toward Japan and to risk the fate of China on attempting to resist Japan's inroads in the North by force of arms.

A very brief summary of Dr. Hsu Mo's remarks is enclosed.[63] A copy of this summary has been handed to Mr. White for nontextual use without ascribing the source, if he desires to use it.

Respectfully yours, For the Ambassador:
WILLYS R. PECK
Counselor of Embassy

793.94/7461 : Telegram

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

TOKYO, December 2, 1935—noon.
[Received December 2—6:42 a.m.]

225. Department's 185.[64]

1. The British Chargé d'Affaires told me yesterday that the Vice Minister for Foreign Affairs had given him substantially the same outline of Japanese policy as was given to me (Embassy's telegram No. 216, November 25, 6 p. m.) with the additional statement that

[63] Not printed.
[64] November 29, 3 p. m., p. 454.

in Japanese opinion Leith-Ross' presence in China was being used by Nanking officials as a cover for political intrigues that have little or nothing to do with government finance. The British Chargé added that the Vice Minister made no reference to the Nine Power Treaty and although the Chargé brought up the subject the Vice Minister ignored it. The Japanese press has carried a number of acrimonious accounts of their interview (which according to the Chargé was cordial and pleasant) due to a rather provocative press message from London which stated that the British Embassy here had been instructed to take up the question of treaty violation and the protection of British interests.

2. Some rather lurid accounts of events in China which apparently are believed by responsible Government officers here are current in official Japanese circles. These boil down to the following:

(*a*) Chiang Kai-shek and his entourage have made enormous profits in recent weeks from transactions in silver and the announcement of the nationalization of silver was primarily a scheme to consolidate these gains.

(*b*) Hesitation in declaring autonomy in North China has been due largely to hopes of Northern leaders that Chiang would divide some of his profits with them. This factor has made much trouble for the Japanese in the North.

(*c*) The British through Leith-Ross have been giving support to these machinations perhaps unwittingly and without realizing the turpitude of the Nanking leaders.

(*d*) C. T. Wang was induced by Chiang to board the steamship *President Jefferson* in an effort to enlist the sympathies of the Vice President and the congressional party on behalf of the so-called currency stabilization project and the general plans of the Nanking Government.

3. The Embassy has no means of checking the truth of these reports but in any case it seems to the Embassy that while the Japanese are in their present frame of mind there is little that can be done by outside powers in North China. Assuming that there is a modicum of truth in the foregoing reports, it appears that the Japanese must be offering inducements to keep the North China autonomists in line.

Repeated to Peiping. NEVILLE

793.94/7463 : Telegram

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

PEIPING, December 2, 1935—3 p. m.
[Received December 2—11:49 a. m.]

191. Department's 63, November 29, 2 p. m.[65] Such an inquiry will probably produce either denial by the Japanese Foreign Office or a

[65] See footnote 61, p. 454.

statement that autonomous movement in North China is spontaneous on part of local population. We would have to accept denial or statement and stand before the East as accepting something that is essentially untrue. I do not, therefore, see any value in such an inquiry.

2. Please see my 72, November 11, 2 p. m., from Nanking. If any inquiry is to be made it would be more to the point, in my opinion, if all the powers party to the Nine Power Treaty could inquire of Japan as to the nature of the policy announced as having been accepted by the Japanese Ministries of Foreign Affairs, Finance, War and Navy and indicated in the Japanese press as being based on the three principles mentioned in my telegram above referred to and whether those principles are compatible with the respect for the sovereignty of China covered by the Nine Power Treaty. But in this connection consideration must be given to the views which I expressed in my No. 288 of June 17, 8 p. m., which I still hold.

3. This autonomous movement in North China is, in my opinion, being engineered by the Japanese who are supporting Doihara with the Kwantung Army. Japanese soldiers using Boxer Protocol [66] as authority are now stationed at railway junctions at Tientsin Central and at Fengtai where they interfere with freight traffic southward on the Tientsin-Pukow and Peiping-Hankow Railways. Japanese military are thus in a position to control railway communication between Peiping and Tientsin and even to points south. These activities are in my opinion one phase of a vastly larger scheme having for its final aim the eradication of every vestige of European and American influence in China and ultimately Asia. This policy has been frankly outlined in the statements of Amau in Tokyo and General Tada more recently in Tientsin and I confidently believe that the Japanese military will consistently and persistently pursue this scheme until it has been attained or until they have exhausted themselves in the effort.

4. Japanese activities here are in my opinion directed to force China to accept the policy outlined in my telegram above referred to with all that it implies as to the future. Acceptance of the three principles therein set forth will place China almost completely under Japanese control; the presence of Japanese armies in China will have been legalized, China will have consented to Japan's supervision of her finances and of her relations with other countries. Reluctance to accept those principles will mean Japanese encouragement of autonomous movements such as the one now being witnessed in North China

[66] Signed at Peking, September 7, 1901, *Foreign Relations*, 1901, Appendix (Affairs in China), p. 312.

and later elsewhere accompanied by invitations on the part of such autonomous areas to Japan to send into such areas troops and advisers to combat communism and organize finances. Japan will in the end identify what is left of Nationalist China with communism and will include therein Chiang Kai-shek and the Kuomintang. No one is in a position to stop this scheme unless it be the Chinese and it is doubtful whether even they have achieved sufficient unity to present any effective resistance.

Repeated to Tokyo, paraphrase by mail to Nanking.

JOHNSON

793.94/7465 : Telegram

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

PEIPING, December 2, 1935—4 p. m.
[Received 4:03 p. m.]

192. Embassy's 186, November 29, 4 p. m. and 189, November 30, 4 p. m. The Japanese troops in the 10 trains which arrived at Shanhaikwan according to American military authorities yet trained [*detrained?*] there according to the same source and none have yet moved westward insofar as is known. They further report that the troops which recently arrived in the Tientsin area from Shankaikwan have now been assigned to the Tientsin garrison although prior to this movement they belonged to the Kwantung Army. The report that the Japanese military at Tientsin requested November 30 the Tientsin Bureau of Public Safety to prepare billets for three full divisions is believed to be correct but is not yet confirmed.

2. According to an official intimately concerned, the Japanese military at Tientsin have requested the Peining Railway officials to cease telegraphic communications to the National Government on political and technical phases of the North China situation.

3. According to Chinese officials Ho Ying-chin is proceeding to Paoting prior to coming to Peiping and the Governor of Fukien and Yin Tung who were accompanying him have arrived at Tientsin.

4. In the opinion of Chinese officials in Tientsin and Peiping, Sung will not give in to Japanese pressure prior to the arrival here of Ho.

Repeated to Nanking and Tokyo.

JOHNSON

793.94/7464 : Telegram

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

TOKYO, December 2, 1935—5 p. m.
[Received December 2—10:39 a. m.]

226. Referring to Peiping's No. 189, November 30, 4 p. m., and previous in regard to Japanese troop movements in North China.

1. The Military Attaché of the Embassy was today informed as follows by the liaison officer of the War Office.

(*a*) No troops of the Kwantung Army have been sent into North China. There has been no movement of large bodies of troops requiring a number of trains in North China. It is not anticipated that the necessity will arise for the employment of Japanese troops in North China as the Nanking Government will not oppose the independence movement in North China by sending troops into Hopei.

(*b*) Resident Japanese Army officers in Nanking report that the Nanking Government's proposals in regard to the three principles of Japan's new China policy to be presented to Ariyoshi within a few days are satisfactory though not perfect. Ariyoshi's forthcoming visit to Nanking is to be for the purpose of receiving these proposals and is not directly concerned with the North China situation.

(*c*) The visit of General Ho Ying-chin and other important Nanking Government officials to Peiping has been postponed and will not be made until after General Sung announces the semi-independence of Hopei and Chahar. It is expected that this will be announced within 1 or 2 days. Shantung Province will probably join the independence movement at some later date.

(*d*) The Japanese Government suggested the postponement of General Ho's visit. The whole situation in North China is not as tense as indicated by the press which has been misinformed by ignorant correspondents. Total or complete independence is not involved in the independence movement but instead a semi-independent relationship to the Nanking Government is contemplated. This will be successful in view of the Nanking Government's attitude toward Japan's three principles.

2. The Military Attaché gained the impression during the conversation that some sort of agreement has been reached between the Japanese and the Nanking Government in regard to the independence movement in North China. No definite statement to that effect was elicited but the satisfaction expressed over the Nanking Government's proposals and the postponement of the visit of General Ho until after semi-independence has been announced point to an understanding of some sort.

Repeated to Peiping.

NEVILLE

793.94/7566

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

[WASHINGTON,] December 2, 1935.

In giving consideration to the question whether the American Government should at this time make some sort of diplomatic approach to the Japanese Government in regard to the situation in North China, it seems to this Division that there should be clarity of thought in

regard to the objectives which the American Government should seek and those which it might expect to attain.

Our first objective should be the safeguarding of American interests, including persons, property, policy, influence, sanctity of treaties, and peace. We should do that which offers best hope of ameliorating the situation as contrasted with making it worse. We need to keep in mind the question of the record and of facilitating other action, if and when, in the future. We must keep in mind the fact that it is our constant policy to work for the safeguarding of the open door and the principle of respect for China's political, territorial and administrative integrity. In deciding upon any step (positive or negative) we should envisage the step to be taken next in case the step taken at the moment has unsatisfactory consequences.

The situation is one in which the Japanese army is dictating Japan's course and is proceeding according to its own lights and toward its own objectives. That army will work its will in North China until and except as it encounters resistance of force to force. Protests, whether by the Chinese alone or by other powers or by both, will have little effect on the Japanese army's program unless and except as there stands behind those protests likelihood, in the Japanese estimate, of application of force in case the protests are not heeded.

This country has no intention of using force. Nor has any other of the occidental powers. The Chinese have some thought of resorting to force, but they are not likely to do so unless they get the impression that some one or more of the occidental powers will become embroiled and come in some manner to their assistance. Resort to force by the Chinese without the assistance of one or more foreign powers would probably result in political calamity to China and a much more extensive forward movement by the Japanese army than that army is likely to engage in in the near future if not thus challenged. Foreign governments should therefore be very careful to avoid giving the Chinese any ground for a false expectation of armed assistance or in any way encouraging them to resort to force as a gesture.

Mere representations on our part at this point would not cause the Japanese army to halt. Nor would representations by this and several other governments. Effort on our part to bring about a concert of representations would do more harm than good.

The one useful purpose which might be served by our making, on our own initiative and without collaboration with other powers, some carefully formulated representation would lie in the fact of our keeping the record clear and complete and signifying to all concerned that the American Government has in no way abandoned its fundamental principles and is not indifferent to situations which

threaten disregard by other powers of them. In connection with any step taken for that purpose, it is important that we choose the most opportune moment. A step taken for that purpose should be taken neither too early nor too late. It should be taken when it will tend to clarify rather than to confuse and to reduce rather than to increase the tension inherent in the situation to which it relates.

Representations were made last week by the British Government to the Japanese Government, in the form of an inquiry with an express reference to the Nine Power Pact. The Japanese Government is reported to have disclaimed, in reply, any association with or responsibility for the "autonomy" movement in North China and to have disregarded the reference to the Nine Power Pact.

From point of view of the principle of cooperation and of parallel action among the interested powers, the American Government must consider whether or not it should follow suit. It should not, however, follow suit merely for the sake of keeping the record clear in that connection. Its decision should be made rather on the basis of the effect which it will have in regard to the situation in China and in Japan.

Any representation which we might make now should be so made, as to substance and method, as not to incite the Japanese army to increased vigor in the prosecution of its China policy and not to encourage the Chinese to armed resistance. It should be such as to be beyond the range of attack by those critics in this country who have charged the American Government in the past with "baiting" Japan. Unless we can make it such, it would probably be best for us for the time being to refrain from action.

The British Government has informed us of the action which it has taken, but it has not otherwise made any suggestion, express or implied, that we act. The Chinese Government has informed us of the protest which it has made to Japan and has asked for an indication of our attitude and, by intimation, of our intention. Except for these indications, it has in nowise been suggested from any quarter that the American Government ought at this moment and under existing circumstances to "do something". The American press correspondents have been inquiring with regard to our intentions, but have not indicated an expectation or desire that we act. The editorial writers in the American press have commented in great numbers and repeatedly on the recent development in North China, have pointed to the renewed evidence of Japan's imperialistic trend, of the Japanese army's dominant position, of that army's indifference to treaty obligations, etc., and to the menace of all this to the interests of other powers and to the cause of peace; but, in practically no case have they advanced the view that action by the American Government is called for.

We thus are in a position to make our decision on the basis, substantially, of what seems to us most practicable and expedient.

There are several possible courses which may well be given consideration, among which are: (*a*) to remain silent; (*b*) to make a statement to the Japanese Ambassador here; (*c*) to make an approach, in Tokyo, in the form of an inquiry, to the Japanese Foreign Office; (*d*) to make an approach in the form of an inquiry to several of the other interested governments, including, perhaps, Japan, China, Great Britain, and conceivably others; (*e*) to make a statement to the British Government; (*f*) make a public statement.

If we remain silent, we run the risk of there developing an impression that we are indifferent to the situation—which we are not—and of its being charged that there is inconsistency between our manifestation of concern in regard to the Italo-Ethiopian situation and our lack of manifestation of concern in regard to the Chinese-Japanese situation; and we make it possible for the charge to be made later that we have been neglectful.

If we make a statement to the Japanese Ambassador here, we have no assurance as to what the Ambassador will give to the press or report to his Government.

If we make an approach to the Japanese Foreign Office, we may be sure that the Japanese army will make use of the fact for its own ends, and we run the risk of a snub such as the British Government has received in Tokyo.

If we make an approach to several of the other interested governments, we run the risk of misinterpretation in China, misconstruction and misrepresentation in Japan, and a charge by critics in this country that we are "trying to start something".

As the situation in North China is still highly fluid, it is believed that the moment has not yet arrived for making a statement in reservation of our rights; and it is believed that approaches in the form of an inquiry to any of the other governments would be essentially futile, might merely tend to inflame the situation, and might react to our embarrassment.

There remains among the possibilities indicated above one course of action which might be advantageous: that is, to make a statement to the British Government. At all times in deciding upon courses of action with regard to Far Eastern matters, we should keep in mind the fact that where common interests are involved cooperation or parallel action on the part of the American and the British Governments offers possibility of advantage. Experience has shown that it is difficult to have this cooperation. Both countries should, however, strive for it when and where possible. In the present instance, the British Government has acted, has informed us of its action, and

has had a rebuff from the Japanese. It has not seen fit to inform us of the rebuff. We have given it no indication of our attitude. If now we were to inform the British Government of our view of the situation and our intention with regard to it, it is believed that several useful purposes would be served by our doing so: it would appear in the record that we have not been indifferent to the situation; it would be manifest to the British that we are sympathetic to the effort which they have made; it could not be charged later by the British Government that, at a moment when they have manifested concern, we have contented ourselves with an attitude of stony silence.

In the light of the above, it is recommended that we make a statement to the British Ambassador here and to the Foreign Office in London, with a memorandum, along lines indicated in the draft here attached.[67]

Also, it is recommended that, in order to signify to our public and to interested governments and publics abroad that we are not indifferent to and not overlooking the situation, and to dispose of the inquiries which are being made by press correspondents here, the Secretary make to the press for publication a prepared statement. A draft of a possible such statement is here attached.[68]

S[TANLEY] K. H[ORNBECK]

793.94/7466 : Telegram

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

NANKING, December 3, 1935—3 p. m.
[Received December 3—7:35 a. m.]

125. The Embassy has been confidentially informed by an American connected with the Chinese Government that the latter talked with Li Tsung-jen in Shanghai November 30, that Li had come secretly intending to proceed to Nanking but had been warned not to do so by his Shanghai agent who feared he might be detained and that he and Pai Chung-hsi were determined that Chiang must either fight the Japanese or retire from the Government. Canton is being asked to investigate discreetly and report.

Repeated to Peiping.

PECK

---

[67] See telegram No. 380, December 5, 5 p. m., to the Ambassador in the United Kingdom, p. 474.

[68] See telegram No. 191, December 5, 5 p. m., to the Chargé in Japan, p. 473.

793.94/7467 : Telegram

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

PEIPING, December 3, 1935—4 p. m.
[Received December 3—2 p. m.]

193. Embassy's 192, December 2, 4 p. m. An airplane, apparently the plane recently acquired by the new regime in the demilitarized zone and recently obtained from the Japanese, has flown over Peiping the past 3 days distributing propaganda pamphlets. Japanese planes continue to fly over Peiping and Tientsin and other parts of North China. There is no new information with regard to looking for troop movements in Hopei.

2. Ho Ying-chin's secretary at Peiping states that Ho left Paoting this afternoon for Peiping. Yin Tung is in Tientsin, Chen Yi is now in Peiping allegedly negotiating on behalf of Ho for a compromise which will be satisfactory to Nanking and the Japanese. Sung Che-yuan has sent a representative to Paoting. Nanking's compromise proposal is said to be some sort of a commission for administration of the five Northern provinces which will nominally not be as autonomous in character as that originally desired by Doihara.

3. A representative of the Mayor of Tientsin stated yesterday in confidence that the Japanese are pressing the Mayor so hard for immediate announcement of an autonomous government in the Tientsin municipality that he will either have to accede to the Japanese demands within a day or two or permit the movement to come into being over his protests with consequent disorder.

By mail to Tokyo and Nanking.

JOHNSON

793.94/7470 : Telegram

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

NANKING, December 4, 1935—2 p. m.
[Received December 4—8 : 35 a. m.]

126. 1. According to the official quoted in my 94, November 29 [*20*], 6 p. m., Ho Ying-chin is under instructions to negotiate with the Japanese with a view, as a last resort, to establishing a special administration for Hopei with himself as head which will not interfere with the remittance to the National Government of customs and salt revenues and which may later be extended to include Chahar but not Shantung. The official states the Government expects that Ho will find it necessary to make this move and publicly announce the new administration within a few days. He states that Ho's instructions are predicated upon the belief that it is more advisable for a

high official acting for the Government to set up the new administration than for the change to be effected by local authorities acting contrary to the Government's instructions under pressure from the Japanese.

Repeated to Department and Peiping.

PECK

793.94/7495 : Telegram

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

TOKYO, December 4, 1935—4 p. m.
[Received December 4—9 : 20 a. m.]

228. Peiping's 191, December 2, 3 p. m. The considerations advanced in the first two paragraphs [of] the telegram referred to are sound in this Embassy's judgment with the qualification that any questioning of the Japanese policy will have to be backed up by superior physical force if it is to be effective. Ineffective protests or inquiries would be useless and might prove to be positively harmful and would almost certainly be somewhat humiliating to us. This is a thesis that has been more than once put before the Department.

It may be however that for purposes of record a protest by the countries party to the Nine Power Treaty might be considered advisable. Such a protest however in this Embassy's opinion would have to be most carefully prepared and backed by irrefutable proof of violations of the Nine Power Treaty in order to avoid a simple and derisive denial by the Japanese as they maintain troops in the Peiping-Tientsin area by virtue of the Boxer Protocol.

Other portions of Peiping's telegram deal in part with specific Chinese questions and ultimate Japanese objectives upon which this Embassy would hesitate to express opinions. There is no doubt however that the Japanese intend to be the predominant force in this part of the world. They will go as far as they can at the moment and deal with future situations as they arise.

Meanwhile we must face the fact that the only people who can in the long run deal effectively with the Japanese in China are the Chinese themselves and I cannot see where any interest of the United States (except that of endeavoring to maintain the Nine Power Treaty) would be served by laying ourselves open to a rebuff by protesting on behalf of a people who apparently are incapable of political action and unwilling to make any sort of common cause against what they complain of as aggression. And it must be understood that the Japanese would fight if necessary to carry out their aims in North China; the future alone can tell whether, and when, similar situations will arise elsewhere in China.

Repeated to Peiping.

NEVILLE

793.94/7535

Memorandum by the Chief of the Division of Far Eastern Affairs (Hornbeck) of a Radiotelephone Conversation With the American Delegation Aboard the S. S. "Aquitania" [69]

[WASHINGTON,] December 4, 1935.

Mr. Dooman [70] said that Mr. Phillips,[71] Mr. Davis,[72] Admiral Standley [73] and he wondered whether we had made or were going to make at Tokyo an inquiry similar to that which the British Government had made; and that they four thought that the making by us of such an inquiry would be helpful to the position of the Delegation when they take up their task at London. I said that we had not taken such action and did not expect to.

At that point the connection became bad and the operators undertook to improve it. While that was going on, our operator told me as from New York that "there is no privacy in relation to a ship to shore telephone conversation."

When the connection was renewed, I told Mr. Dooman what the operator had just said. I stated that in what I would next say I would have that point especially in mind. I then said that we greatly appreciated having the message stating the views of the Delegation; that for the past several days we have been living with and sweating over the problem; that it is the unanimous view of Tokyo, Peiping and the officers of the Department who are struggling with the question that we should not take action on the line of that which the British Government has taken; but that, having most carefully considered a half dozen possible courses, we probably will take action, the course chosen being that one which seems to us to offer most chance of meeting the demands of our situation with the minimum risk of inflaming the situation in the Far East. Dooman said that he was sure that we were not being neglectful. I said that it was very useful to us to have the point which he had reported about potential helpfulness to the position of the Delegation in relation to their work at London.

Dooman said that Mr. Davis wished to speak to me. Mr. Davis said that he wished to say "hello". I said that we were glad to hear from the Delegation and I appreciated personal word from him. I said that Dooman would report to him what I had just said as to what we are trying to do. I then inquired whether they had had news of the reported intention of a certain power to propose some kind of a four

[69] The delegation was en route to the London Naval Conference; for correspondence on the Conference, see vol. I, pp. 64 ff.

[70] Eugene H. Dooman, adviser to the delegation.

[71] William Phillips, Under Secretary of State and delegate.

[72] Norman H. Davis, head of the delegation.

[73] Admiral William H. Standley, delegate.

power treaty guaranteeing the peace of the Pacific. He said that they had not. I said that it had been reported in the New York papers of yesterday. I added that I thought that the idea was one full of danger. Mr. Davis said that he quite agreed, but that he would not be surprised if within two or three weeks the Delegation were "cruising in the Mediterranean" (spoken with a chuckle and meaning that the Conference would be over). I said that it would not grieve me if such became the case. Mr. Davis asked me to give his cordial regards to the Secretary; I said that I would and I asked him to give mine to Mr. Phillips and Admiral Standley. Mr. Davis said "Yes, good-bye"—and the conversation there ended.

S[TANLEY] K. H[ORNBECK]

793.94/7486 : Telegram

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

PEIPING, December 5, 1935—11 a. m.
[Received 3 : 38 p. m.[74]]

202. The Secretary of Ho Ying-chin stated last night in confidence to me that Takahashi has sent word to Ho that personally he welcomes him but that officially he informs the Minister of War that if he remains in North China there will be serious trouble.

It is understood that since Ho's arrival he has conferred with Chinese leaders and that Chen Yi and Hsiung Shih-hui have conferred with Tada in Tientsin and Doihara in Peiping, presumably with regard to the possibility of a compromise in the face of a communion of some sort for the nominal administration of North China. Sung Che-yuan gave yesterday an interview to Chinese pressmen which has been forbidden publication in Chinese papers. In this interview Sung stated that the Japanese were primarily responsible for the autonomy movement and that he will take orders from the National Government and will resist the Japanese if necessary.

There has been obtained as yet no evidence that Ho has brought with him anything more than a rather nebulous plan. However, Sung's statement represents a new attitude and is evidently the result of Ho's arrival and representations. The Japanese are apparently deeply dissatisfied with Ho's arrival and the National Government's efforts to solve the North China situation. If Ho succeeds in effecting some compromise with the Japanese it may be but a temporary solution and the question remains whether the Japanese will achieve what I believe to be their aims subsequently by use of military force or by instigating disorders through the use of "traitor" Chinese. With Sung on the side of the National Government it may be more difficult

[74] Telegram in three sections.

for subversive activities to reach the proportions necessary to effect the changes desired by the Japanese. It is impossible to determine whether the Chinese will attempt to take any effective measures against Japanese activities of either category. There are evidences however that Ho's arrival has brought out a stronger resolution on the part of the Chinese.

Repeated to Tokyo, by mail to Nanking.

JOHNSON

793.94/7482 : Telegram

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

NANKING, December 5, 1935—3 p. m.
[Received December 5—9:35 a. m.]

128. 1. I called on Kung, Acting President of the Executive Yuan, December 4, 6 p. m., to seek information regarding Sino-Japanese relations. He refused to describe nature of the instructions given to Ho but evidenced fear that Ho would be outwitted by the Japanese into conceding too much. He said that any settlement reached would be only a stopgap and prelude to further Japanese encroachments. He said that when Tada first approached Shang Chen with his demand that autonomy of Hopei be declared, Tada stated clearly that the Japanese must fight the Russians and must have Chinese cooperation in the North, hence must be allowed to train the Chinese troops.

2. As I anticipated Kung inquired regarding the attitude of the American Government toward these discussions concerning fate of North China and whether the American Government would do or say anything if the Japanese took military possession of that area. I naturally replied I had no information on this point but implied doubt whether any public statement would impede Japanese activities in view of experience in 1932. Kung said 3 years ago Great Britain had not been ready to back up the United States but if both countries joined in some statement now Japan must pay some attention. Kung then said if Japanese advance into China were not stopped Japan would cut off relations between China and all other foreign countries and he asserted Japan's ambitions included ultimate seizure of Hong Kong, other European possessions in the Orient and the Hawaiian Islands. I have replied that I did not dispute his assertion but did not believe the voters of America who determine American foreign policy were alarmed at such distant threats. To forestall request that I telegraph a message I called attention to news reports of conversations between the Department, the Chinese Ambassador and the British Government.

PECK

793.94/7493 : Telegram

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

WASHINGTON, December 5, 1935—5 p. m.

191. The Secretary is today issuing for publication here in the morning papers of December 6 a statement in regard to the North China situation reading as follows:

"In reply to inquiries by press correspondents in regard to the 'autonomy movement' in North China, Chinese and Japanese activities in relation thereto, and the American Government's attitude, the Secretary of State said:

There is going on in and with regard to North China a political struggle which is unusual in character and which may have far-reaching effects. The persons mentioned in reports of it are many; the action is rapid and covers a large area; opinions with regard to it vary; what may come of it no one could safely undertake to say; but, whatever the origin, whoever the agents, be what they may the methods, the fact stands out that an effort is being made—and is being resisted—to bring about a substantial change in the political status and condition of several of China's northern provinces.

Unusual developments in any part of China are rightfully and necessarily of concern not alone to the Government and people of China but to all of the many powers which have interests in China. For, in relations with China and in China, the treaty rights and the treaty obligations of the 'treaty powers' are in general identical. The United States is one of those powers.

In the area under reference the interests of the United States are similar to those of other powers. In that area there are located, and our rights and obligations appertain to, a considerable number of American nationals, some American property, and substantial American commercial and cultural activities. The American Government is therefore closely observing what is happening there.

Political disturbances and pressures give rise to uncertainty and misgiving and tend to produce economic and social dislocations. They make difficult the enjoyment of treaty rights and the fulfillment of treaty obligations.

The views of the American Government with regard to such matters not alone in relation to China but in relation to the whole world are well known. As I have stated on many occasions, it seems to this Government most important in this period of world-wide political unrest and economic instability that governments and peoples keep faith in principles and pledges. In international relations there must be agreements and respect for agreements in order that there may be the confidence and stability and sense of security which are essential to orderly life and progress. This country has abiding faith in the fundamental principles of its traditional policy. This Government adheres to the provisions of the treaties to which it is a party and continues to bespeak respect by all nations for the provisions of treaties solemnly entered into for the purpose of facilitating and regulating, to reciprocal and common advantage, the contacts between and among the countries signatory."

HULL

793.94/7493 : Telegram

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

WASHINGTON, December 5, 1935—5 p. m.

380. Your 595, November 27, 1 p. m., first paragraph.

1. British Ambassador here on November 29 gave Department orally the same information. Department is today informing Ambassador that, having carefully canvassed several possible courses of action, we regard as the most practicable the making by the Secretary of State of a statement to the press; that we shall continue carefully to observe developments and may if and when occasion warrants take further action as may seem appropriate; and that we hope there may continue to be between our two Governments free and frank exchanges of information and views with regard to this matter.

2. There is being released to the press, for morning papers of December 6, a statement. Text will reach you by radio bulletin. Substance is that unusual developments in China are rightfully and necessarily of concern not only to the Chinese but to all of the many treaty powers of which the United States is one; in the North China area we have various interests; this Government is therefore closely observing what is happening there. Disturbances and pressures make difficult the enjoyment of treaty rights and fulfillment of treaty obligations. In international relations there must be agreement and respect for agreements. This country has abiding faith in the principles of its traditional policy. This Government adheres to its treaties and bespeaks respect by all nations for treaties.

3. Inform Foreign Office orally of our oral communication to British Ambassador and of press statement.

4. Bring this and text of statement to attention of American delegation to Naval Conference.

HULL

793.94/7492 : Telegram

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

PEIPING, December 6, 1935—1 p. m.
[Received December 6—10:15 a. m.]

203. Embassy's 202, December 5, 11 a. m. Sung Che-yuan went into seclusion yesterday. There is some doubt as to his whereabouts but he is probably in Tientsin. By doing this he has thrown the responsibility for solving the North China situation onto Ho Ying-chin. Sung's action may be explained by the fact that he has been in a most delicate position. On the one hand, he is convinced that if he resists Japanese pressure on him to declare autonomy the Jap-

anese will use military force thereby eliminating him from the political field. On the other hand, Ho has arrived without any definite plan thereby contributing nothing helpful to Sung's situation. Since Nanking's error in dismissing Sung last June from the Chairmanship of Chahar, Nanking has in no way extended him any assistance or advice other than one telegram of November 19 telling him not to declare autonomy. If he holds out against Japanese pressure he has good reason to believe that he will not obtain any real assistance from the National Government. (Well-informed Chinese here state that Nanking has no intention of risking war with Japan to save Hopei and Chahar.)

2. The situation today is considerably worse than any time since Ho's arrival. It is extremely doubtful that the Japanese will agree to any compromise plan of Ho even if he can evolve one. (One of Sung's counsellors stated yesterday that the Japanese desire that North China shall definitely sever relations with Nanking under the guise of "autonomy".) It is anticipated by responsible Chinese that Ho will leave for the South in the near future without having accomplished anything. Autonomy of Hopei and Chahar appear, therefore, to be nearer and practically inevitable. Even if Sung does not declare autonomy the Japanese will have no difficulty in finding some Chinese such as Hsiao Chen-ying or Yin Ju-keng to do so. In fact, Hsiao at the moment seems to be the chief supporter of the Japanese plan, his efforts presumably being abetted by such plotters as Tsao Ju-lin and Wang Yi-tang.

Yin Ju-keng's plane flew over Peiping yesterday dropping handbills urging support of autonomy. The bills were signed by "the Associated Autonomous Societies of Eastern Hopei." It is reliably stated that Yin's plane is a British-made Japanese-owned plane now piloted by a Japanese. After the flight of Yin's plane five Japanese planes flew over Peiping. Later nine Japanese planes flew over the city.

Fifty to seventy-five persons demonstrated yesterday in front of Ho's residence in favor of autonomy. Nine Japanese combat planes and three bombers without racks are flying over Peiping at present. Some of them have flown low over the American Embassy three times this morning.

JOHNSON

793.94/7589

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

No. 118 PEIPING, December 6, 1935.
[Received December 30.]

SIR: I have the honor to report that Dr. Chiang Mon-lin, Chancellor of the National University of Peking, was informed on November

29 by two Japanese that the Japanese *Gendarmerie* would like him to call at its headquarters in the Japanese Embassy compound. Dr. Chiang called there later in the day, and subsequently informed a member of my staff of what occurred during the visit. (Dr. Chiang stated that the Japanese with whom he talked was an officer of the gendarmes named Kishimoto. According to the Japanese Embassy, however, Kishimoto is a "special sergeant-major".)

Dr. Chiang had a conversation for 45 minutes in a room of which the door was locked. The Japanese, Kishimoto, told Dr. Chiang that the Kwantung Army had heard that Dr. Chiang had made speeches and had written articles of an anti-Japanese character. When Dr. Chiang denied this, the Japanese stated that the Kwantung Army had proofs. Dr. Chiang asked to see the proofs. The Japanese then suggested that Dr. Chiang accompany him that evening on the 8:30 train to "Manchukuo" to explain to the Kwantung Army. Dr. Chiang replied that it would be very unwise of the Japanese to kidnap him as the affair would receive a great deal of publicity which would result in lowering the prestige of the Japanese. Kishimoto then said that it was understood that Dr. Chiang had initiated the recent press statement issued by prominent Chinese educators of Peiping in opposition to autonomy. Dr. Chiang replied that he had initiated the statement, that he was opposed to autonomy, but that this was a purely internal question. Kishimoto hastened to agree that, of course, it was an internal matter and that the Japanese had nothing to do with the autonomy movement.

Kishimoto told Dr. Chiang that the Japanese felt that Dr. Chiang was anti-Japanese in his conversations and in his thoughts. Dr. Chiang informed Kishimoto that he was pro-Japanese in one respect; namely, in his regret that the Japanese Army was pursuing a policy in China which would ultimately bring about the ruin of Japan. Dr. Chiang then seized the opportunity to tell Kishimoto much of what is wrong with the Kwantung Army's policy towards China, stating among other things that it listens to the advice of bad rather than good Chinese. Dr. Chiang told Kishimoto that he would be glad to call at the Japanese Embassy any time that the Japanese wanted some good advice.

At the conclusion of the conversation, the door was unlocked and Dr. Chiang was shown out courteously, the Japanese apparently being impressed by his fearlessness and frankness.

It may be added that shortly before the Japanese called on Dr. Chiang to arrange this call they had attempted to get in touch with Dr. Hu Shih who, however, was not at home at the time.

Respectfully yours, NELSON TRUSLER JOHNSON

893.00/13310 : Telegram

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

NANKING, December 7, 1935—noon.
[Received December 7—8 : 40 a. m.]

129. My 127, December 5, 10 a. m.[75]

1. It is unofficially reported that as a result of the plenary session this morning the new Government is constituted as follows:

Lin Sen remains Chairman until the convocation of the Peoples National Convention; Chiang Kai-shek is President of Executive Yuan and H. H. Kung Vice President; incumbent heads of Legislative, Judicial, Examination and Control Yuans remain in office; Hu Han-min is named to new office of Chairman of Standing Committee of Central Executive Committee with Chiang Kai-shek as Vice Chairman; Wang Ching-wei is named to new office of Chairman of Standing Committee of Central Political Council with Chiang Kai-shek as Vice Chairman.

2. Ministerial posts are reportedly not yet decided upon.

PECK

793.94/7497 : Telegram

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

TOKYO, December 7, 1935—1 p. m.
[Received December 7—9 : 15 a. m.]

233. Department's 191, December 5, 5 p. m.

1. The statement of the Secretary of State and the speech of Sir Samuel Hoare of December 5 before the House of Commons were published simultaneously in the Japanese afternoon newspapers of December 6 before the arrival of section 2 of the Department's telegram. The reaction in Japan so far has been quiet and lacking in belligerency.

2. Replying to questions of the foreign newspaper correspondents yesterday the Foreign Office spokesman is reported to have said that Mr. Hull's statement was "only a reiteration of the principles of international law" and pointed out that no mention was made in the statement of the Nine Power Treaty or of steps to be taken by the United States. The spokesman whom I met yesterday afternoon talked to me along much the same lines.

3. The *Toyko Nichi Nichi* yesterday evening published what purported to be an informal statement issued by the Foreign Office to the effect that the Japanese Government sees no necessity to consider any countermeasures to Mr. Hull's statement; that the Japanese Govern-

[75] Not printed.

ment regrets that expressions were used in the statement which give the impression that the American Government believes that Japan is backing the autonomy movement; and that friction is bound to occur when old treaties and agreements are applied to shifting conditions such as are found in the Far East.

4. The principal Japanese newspapers this morning published editorials on the subject of the two statements. The tone of the editorials is generally restrained. They usually review the contents of the statements and attribute their issuance to mistaken reports of Japanese connection with the autonomy movement and proceed to a defence of Japan's aims and purposes in the Far East. The *Asahi* also draws attention to the indication given by the issuance of the two statements that American and British views are drawing closer together. The *Nichi Nichi* is somewhat antagonistic to the United States in its editorial and condemns Mr. Hull's statement because it creates "unnecessary suspicion" of Japan. The *Jiji* attacks the British statement, which it states has unnecessarily impaired relations between Great Britain and Japan.[76]

NEVILLE

793.94/7496 : Telegram

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

NANKING, December 7, 1935—3 p.m.
[Received December 7—9:25 a.m.]

130. Department's 24 of December 5, 5 p. m.[77] At its request copy of press statement has been handed to the Foreign Office. I accompanied Hayden, former Vice Governor General of Philippines, on calls on Vice Minister Hsu Mo and Director of Publicity Li this morning. The Vice Minister gave no reaction to the press statement. In response to discreet questions Li made the observations that the statement seemed stronger than the recent parliamentary statement of the British Minister for Foreign Affairs and stronger in implication than the step of sending the British Chargé d'Affaires to the Japanese Foreign Office to make inquiries. He would venture no opinion regarding the probable effect, if any, of the statement on the activities of the Japanese military in North China saying that the objectives of the civilian and military branches of the Japanese Government in China were the same but the military are in favor of using brute force while the civilians prefer slower and more cautious measures. He observed

[76] The Chargé in Japan, in his telegram No. 236, December 10, 5 p. m., reported that the Japanese press had quietly dropped the subject, "perhaps by official instigation but more likely because overshadowed by news of the progress of the Naval Conference." (793.94/7505)

[77] Not printed; it reported the Secretary's issuance of the press statement quoted in telegram No. 191, December 5, 5 p. m., to the Chargé in Japan, p. 473.

incidentally that since 1931 speaking historically each pronouncement of the League, Great Britain or the United States reflecting on Japanese activities in China had been followed by increase of pressure on China from the Japanese military faction as though in defiance of outside influences. Questioned regarding this observation Li expressed the opinion that the Japanese military faction proceeded on the assumption that such pronouncements carried no threat of ultimate force and would unquestionably pay heed to them if Great Britain and the United States spoke simultaneously and conveyed threat of some sort of economic, political or military pressure. When I inquired whether Li did not feel that the Soviet threat on the Northwest was as grave as the Japanese threat on the Northeast, he said that the Chinese Military Attaché returning from Moscow this summer reported that rumors of Soviet influence in Sinkiang were exaggerated. Conversation summarized above was of course purely personal and informal. Repeated to Peiping.

PECK

793.94/7498 : Telegram

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

PEIPING, December 8, 1935—4 p.m.
[Received December 8—10 : 55 a.m.]

209. Embassy's 203, December 6, 1 p. m. Chinese circles today appear to be confident that there will be established Hopeh and Chahar the mooted semi-autonomous government with the acquiescence of the National Government. This development is said to have resulted from conversations between Tada and Hsiao Chen-ying at Tientsin on December 6 and two conferences between Ho Ying-chin and Hsiao and other leaders in Peiping yesterday. The press states that required formal sanction will probably be given by the National Government at the first meeting of the Executive Yuan on December 10.

It is denied that prominent member of the old Peiyang and Anfu cliques will participate in the autonomous government. It is evidently hoped that Sung Che-yuan, who has not taken any direct part in the negotiations of the past few days, can be persuaded to head the semi-autonomous government. Hsiao Chen-ying is expected to become Chairman of Hopeh. It is reported that the East Hopeh autonomous committee would in such circumstances be abolished and Yin Ju-keng given a position on the new committee for the two provinces. It is stated that salt and customs revenues would be remitted to Nanking as before, other revenues being retained here.

Reuter reports that Ho Ying-chin plans to leave Nanking tomorrow. Lieutenant Colonel Kita, chief of the China section of the Japanese

Army General Staff, is scheduled to arrive in Tientsin on December 10. The local Japanese press today indicates that his visit is in connection with the question of increasing the size of the Japanese garrison in North China which is described as a matter of importance in view of the growing intimacy of relations between Japan, "Manchukuo" and North China.

Repeated to Nanking, by mail to Tokyo.

JOHNSON

793.94/7499 : Telegram

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

NANKING, December 9, 1935—3 p. m.
[Received December 9—9 : 30 a. m.]

131. My 130, December 7, 3 p. m. This morning I introduced Hayden to Acting President of the Executive Yuan, Kung. Kung informed me that the outcome of the autonomy negotiations in the Peiping area would be less harmful than had been anticipated and he attributed this to the effect on the Japanese military leaders of the statement of the British Foreign Minister and of the Secretary of State relating to North China events both of which became known in the Orient on December 7. Kung asked that a special indication of his appreciation be conveyed to the Secretary of State. While the interest manifested by the British and American Governments had this immediate salutary effect, Kung said he does not expect any abandonment by the Japanese military faction of its plans for dominating North China but he thinks that if Great Britain and the United States continue to exhibit interest in treaty observance Japanese activities will of necessity be more restrained in character.

Repeated to Peiping.

PECK

793.94/7504 : Telegram

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

PEIPING, December 9, 1935—8 p. m.
[Received December 9—4 : 18 p. m.[78]]

211. Embassy's 209, December 8, 4 p. m. According to foreign observers, five or six hundred students of Tsing Hua and Yenching universities attempted to enter the city this morning to protest against the autonomy movement but the city gates were closed against them.

2. Three or four hundred students of schools within the city demonstrated in front of Ho's residence this morning and are now moving

[78] Telegram in two sections.

about the city gathering more students. The crowd is now said to number 1,200 and to be about to hold a mass meeting. They have been inventing [*inveighing?*] against the autonomy movement traitors and Japanese imperialism.

3. Handbills have been distributed in the city today expressing the same belligerent ideas including exhortations for resistance and war against Japan.

4. No Japanese planes have flown over Peiping since December 6th.

5. Japanese pressmen claim that Doihara disapproves of the proposed Council for Hopei and Chahar but no official Japanese statement has been made.

6. Japanese Embassy official states that he understands the following to be correct: All Japanese authorities except the Kwantung Army are favorably inclined toward the proposed Council but there is apprehension that the Council will not make the economic, strategic and financial arrangements which the Japanese military desire.

7. Chinese officials expect the National Government to approve the establishment of the proposed Council. Its membership and powers are still unknown. Repeated to Nanking, repeated by mail to Tokyo.

JOHNSON

762.94/67

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

No. 1582 TOKYO, December 9, 1935.
[Received December 30.]

SIR: I have the honor to refer to the Department's strictly confidential instruction No. 880 of November 15, 1935,[79] in which was enclosed a paraphrase of telegram No. 941 of November 7, 1935, from the American Embassy at Paris.[79] The telegram quoted a conversation with a German official who boasted of the close relations between German and Japanese General Staffs.

The Military Attaché at this Embassy informs me that apparently there is great cordiality between the German Military Attaché and the Japanese military authorities. The German Embassy, in its entertaining, seems to lay stress on good relations with the Japanese army. This Embassy is not in a position to state to what extent the German and Japanese General Staffs actually collaborate, but there is no mistaking the cordiality that exists.

In this connection, I was informed by one of my colleagues from Central Europe, that Poland, Germany and Japan have very close military relations. It seems that at a recent social affair at the Polish Legation, the Soviet Ambassador went to the trouble of posting an

[79] Not printed.

observer at the gate. This observer reported the presence of some 350 Japanese army officers—an unprecedented number, as Japanese army officers are not given to calling at foreign Missions on ordinary social occasions. This was taken by my informant to indicate exceptionally good relations. I may add that the Soviet Embassy seems decidedly of the opinion that both Germany and Poland collaborate with the Japanese General Staff.

Respectfully yours, EDWIN L. NEVILLE

793.94/7506 : Telegram

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

PEIPING, December 10, 1935—4 p. m.
[Received 4:37 p. m.[80]]

213. Hu Shih who has had conversations with Nanking leaders and with Sung Cheh-yuan on the subject gave me last evening the following information. The plan for the proposed Council was drawn up by Ho Ying-chin, Sung Che-yuan, Chin Teh-chun, Chen Yi, Hsiung Shih-hui and Hsiao Chen-ying with Hsiao probably in frequent communication with the Japanese. The National Government participated in order to dissuade Sung from declaring independence which he has contemplated as a result of Nanking's treatment of him since last June and in the hope of keeping Sung's army loyal to Nanking as it is the only force in this immediate area which can fight for China. Nanking is not ready to fight but expects to fight eventually as there is no end to Japanese ambition. The world situation is not propitious for such a dispute. Japanese intrigue for autonomy has not worked out as the Japanese intended. The informant hopes that the Council may last for 3 or perhaps 4 months. The Council will have autonomous control of the two provinces with Nanking retaining Judiciary, Finance and Foreign Affairs. The Council will number 15. The Anfu clique will be represented only by Wang Yi-tang. Several educators have been asked to serve but have refused.

2. A reliable Japanese source states that in his opinion the Council will be established before its powers are defined and that in the subsequent definition of those powers discord between the Kwantung Army and the Chinese may be expected to arise.

3. According to the first informant, about 1,000 students participated yesterday in the demonstrations inside and outside the city. A few radicals took advantage of the opportunity to distribute radical propaganda. The demonstration was spontaneous. Takahashi protested to the municipality against its inadequate handling of the

[80] Telegram in two sections.

demonstration and claimed that it was communist, an indication that it may be expected that anti-Japanese activities in China proper will hereafter be termed by the Japanese as communist. Takahashi charged Hu Shih and Chiang Mon-lin with having instigated the demonstration.

4. Fighting has occurred at Kuyuan in Eastern Chahar between "Manchukuo" forces and Chinese Peace Preservation Corps. The reasons are unknown.

Repeated to Nanking, by mail to Tokyo.

JOHNSON

793.94/7511 : Telegram

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

PEIPING, [December 11, 1935—4 p. m.]
[Received December 11—9 : 40 a. m.]

218. Embassy's 213, December 10, 4 p. m. The situation is quiet. Nanking's decision on the proposed Council presumably awaits appointment of new Cabinet Ministers. There continues to be conflicting reports with regard to the attitude of the Japanese military towards the Council. Doihara is understood to have directed Japanese pressmen not to publish reports with regard to the Japanese attitude.

2. Students of five local universities including Yenching, Tsing Hua and Peiping National are refusing to attend classes today apparently to show continuing disapproval of the present political situation.

3. It is reported that the Association of Educational Institutions at Tientsin issued yesterday a statement opposing autonomy and any impairment of Chinese territorial integrity.

4. Fighting at Kuyuan is said to have ceased. Repeated to Nanking. By mail to Tokyo.

JOHNSON

793.94/7513 : Telegram

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

TOKYO, December 12, 1935—11 a. m.
[Received December 12—12 : 55 a. m.]

239. The Military Attaché of the Embassy was yesterday informed by the Liaison Officer of the Japanese War Office that:

1. Negotiations between General Ho and General Sung for a semi-autonomous state in Hopei and Chahar have been progressing smoothly and the actual terms of the agreement will be announced within a few days. The Japanese Army authorities who hope for a gradual change in North China are well satisfied with the progress made.

2. It is true that investigations are being made looking toward the strengthening of the North China garrison by increasing the number of staff officers, military police and communications personnel, but there is no present intention of increasing the combat forces of the garrison.

3. The Japanese Army authorities in North China have been ordered to arrest the Japanese "China Ronin" who have been making trouble in North China and who, contrary to popular belief, are not in the pay of the Japanese Army. (It was implied but not so stated that this move was inspired by the implications of Japanese participation in the autonomy movement contained in the statements of Mr. Hull and Sir Samuel Hoare.)

Repeated to Peiping.

NEVILLE

893.00/13322 : Telegram

The Second Secretary of Embassy in China (Atcheson) to the Secretary of State

NANKING, December 12, 1935—noon.
[Received December 12—9:45 a. m.]

136. The Central Executive Committee this morning names the following "Cabinet" Ministers:

Interior, Chiang Tso-pin;
Foreign Affairs, Chang Chun;
Military Administration, Ho Ying-chin;
Navy, Chen Shao-kuan;
Finance, H. H. Kung;
Industries, Wu Ting-chang;
Communications, Ku Meng-yu;
Education, Wang Shih-chieh;
Railways, Chang Kia-ngau (Chang Kung-chuan).

ATCHESON

793.94/7515 : Telegram

The Second Secretary of Embassy in China (Atcheson) to the Secretary of State

NANKING, December 12, 1935—1 p. m.
[Received December 12—11:20 a. m.]

137. 1. The Government is reported to have issued late last night a mandate making the following as members of the Hopei-Chahar Political Affairs Commission:

Sung Cheh-yuan (Chairman); Wan Fu-lin; Wang I-tang; Liu Che; Li Ting-yu; Chia Teh-yao; Hu Yu-kun; Kao Ling-wei; Wang

Keh-min; Hsiao Chen-ying; Chin Teh-chun; Chang Tze-chung; Cheng Ke; Chow Tso-min; Men Chih-chung; Shih Ching-ting; Leng Chia-chi.

2. The regulations governing the Commission are not yet known.

ATCHESON

793.94/7516 : Telegram

The Second Secretary of Embassy in China (Atcheson) to the Secretary of State

NANKING, December 12, 1935—2 p. m.
[Received December 12—10: 10 a. m.[81]]

138. 1. I am privately informed by a department director of the Foreign Office that he does not consider the new arrangement in the North to be in any sense a diplomatic victory for China, as the Chinese Government wishes to have public understand, but rather "the beginning of the end" and his opinion is that the Chinese should have refused to undertake any move toward a special administration and to wait until the Japanese tried force to attain their desires, which he believes is what must happen in the end.

Repeated to Peiping.

2. He anticipates that, since there is and can be no formal written agreement with the Japanese concerning it, the new Commission will not succeed in functioning successfully either from the Chinese or the Japanese point of view and he does not see how the Commission can settle local questions with the Japanese if the direction of foreign affairs remains in Nanking or how Nanking's control over North China can be maintained if the Commission functions on its own in such matters. He stated that practically no one here has known the full details of the arrangement because Ho's reports have been going direct to Chiang without reference to any branch of the Government and he understands that completion of the arrangement has been delayed by an impasse probably in reference to finance. He described the new Commission as being (*a*) combination of the former Peiping political affairs readjustment and the branch military commissions with extended powers, (*b*) superimposed upon the provincial governments and certain to cost a large sum to maintain.

3. The resignation of Shang Chen as Chairman [of] Hopei [announced?] but announcement as to his successor has not yet been made.

ATCHESON

---

[81] Telegram in two sections.

793.94/7518 : Telegram

The Second Secretary of Embassy in China (Atcheson) to the Secretary of State

NANKING, December 12, 1935—3 p. m.
[Received December 12—11 : 50 a. m.]

139. My 137, December 12, noon [*1 p. m.*] and 138, December 12, 1 [*2*] p. m. Following additional appointments are understood to have been made this afternoon:

Sung Che-yuan, Hopei Chairman; Chang Tze-chung, Chahar Chairman; Hsiao Chen-ying, Mayor of Tientsin; Shang Chen, Honorary [*Honan*] Chairman; former Honan Chairman Liu Chih, Pacification Commission[er] for Honan and Anhwei.

ATCHESON

793.94/7523 : Telegram

The Second Secretary of Embassy in China (Atcheson) to the Secretary of State

NANKING, December 13, 1935—11 a. m.
[Received 4 : 28 p. m.[82]]

140. 1. Reference my 137, December 12, 1 p. m.; and 138, December 12, 2 p. m. I am informed by Kung's confidential assistant that the solution of the North China crisis was attained not only by negotiation with Japanese military officers but also by conversations with Tokyo which resulted in the exercise by the Japanese Government of sufficient restraint over the Japanese military that Chinese were able to arrange for a special administration more or less along their own lines for two instead of a larger number of provinces.

2. He states that the disagreement over finances which delayed the announcement of the new Commission's formation was settled by allocating to the Commission control over consolidated wine and tobacco, and various local taxes, the Central Government to retain salt, customs and railway revenues. He said that all National Government functions in Hopei and Chahar would continue to be in actual control of the National Government with the exception of Foreign Affairs which, while nominally under Nanking's direction, would probably be conducted by the commissioner [*Commission?*] at its discretion with confirmation of its acts by Nanking.

3. To Department and Peiping.

4. The new Commission includes several members of former Anfu Party, but these are considered not antagonistic to the National Gov-

[82] Telegram in three sections.

ernment: Wang I-tang who has been considered for Government office; Chia Teh-yao, Vice Minister of War in Tuan Chi-jui's Government; and Wang Keh-Min. Kao Ling-wei is of the former Chihli Party and was Prime Minister in 1923. Men Chih-chung is an adherent of Yen Hsi-shan and Sung Che-yuan. Shih Chih-ting is a former Kuominchun commander. Hu Yu-kun is a former northeastern army leader. Liu Cheh was a member of the Peiping Political Affairs Readjustment Commission. Leng Chia-chi is Chairman of the Peiping Chamber of Commerce.

ATCHESON

893.00/13315 : Telegram

The Second Secretary of Embassy in China (Atcheson) to the Secretary of State

NANKING, December 13, 1935—noon.
[Received 4:13 p. m.]

141. My 136, December 12, noon.

1. The changes in the "Cabinet" indicate a stoppage of Chiang Kai-shek's control and a decline in the power of the Kuomintang, neither Wu Ting-chang nor Chang Kia-ngau being party men.

2. The political Vice Minister will probably not be appointed until next week. Oong Wen-hao (Weng Wen-hao) has been appointed Secretary General of the Executive Yuan; Huang Mo-sung, Chairman of the Mongolian and Tibetan Affairs Commission; J. Heng Liu, Director of the National Health Administration; Chen Shu-jen, Chairman of the Overseas Affairs Commission.

3. I am now reliably informed that decision has been made to name Chen Yi, now Chairman of Fukien, as Ambassador to Japan and that the Japanese have agreed to the appointment.

2. [4.] According to the informant quoted in my 140, December 13, 11 a.m., no action is being taken with respect to the refusal announced in the press of Hu Han-min and Wang Ching-wei to head respectively the standing committees of the Central Executive Committee and the Central Political Committee. Their absence from office makes Chiang Kai-shek Acting Chairman of both Committees and he is not expected to take early steps to alter that situation. (The Central Political Committee has been altered from the status of a Council and while it remains in practice the highest organ of the Government it is subordinate to the Central Executive Committee and functions as the organ through which that Committee makes known its wishes to the Government.)

ATCHESON

793.94/7524 : Telegram

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

PEIPING, December 13, 1935—3 p. m.
[Received December 13—1 : 40 p. m.[83]]

223. [Here follows brief news report of probable appointments in North China.]

The departure last night from Peiping of Ho Ying-chin as well as the departure of those who came north to assist him in negotiations indicates that the North China settlement is completed insofar as Nanking is concerned. The situation is now primarily, as far as the Chinese are concerned, in the hands of Sung Che-yuan and his adherents. They are strengthened by the impending departure of Shang Chen and his troops from Hopei and by the new appointments. The most influential man in the group appears to be Hsiao Chen-ying because of his close relations with the Japanese, his successful surrounding of Sung with his own men, and his new appointment. He faces three dangers, the mistrust of the Japanese, the dislike and suspicion of Sung's military followers, and the next phase of the Japanese program whatever that may be.

2. The questions of the degree of autonomy of the new Council and of the span of its existence still depends on the definition of its powers and the attitude of the Japanese military. Regulations governing the functions of the Council have not yet been made public.

3. The advance into Chahar of "Manchukuo" troops appears to be for the purpose on the part of the Japanese military of turning over at least Eastern Chahar to the nominal control of certain Mongols. A Mongol leader near Dolonor was told some weeks ago by the Dolonor office of the Kwantung Army (according to the Mongol concerned) that the Japanese would take for, and hand over to him, for administration, the six hsien northeast of Kalgan. It seems probable that Sung's influence in Chahar will eventually be confined to the small area south of the Great Wall and that the area north of the Wall will be controlled by the Japanese military through manipulation of the Mongols.

Repeated to Nanking and Tokyo.

JOHNSON

[83] Telegram in two sections.

793.94/7527 : Telegram

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

Moscow, December 14, 1935—1 p. m.
[Received 2:45 p. m.]

520. The Chinese Ambassador informed me yesterday that at the request of his Government he asked Litvinov several days ago what the attitude of the Soviet Government would be in case Japanese pressure in North China should assume such a form as to "threaten the peace of the Far East".

Although Litvinov was evasive he stated that if the Great Powers should take collective action to preserve peace in the Far East the Soviet Union would be willing to participate. Litvinov suggested China might push its case both with the signatories of the Nine Power Treaty and with the League of Nations but added that the chances for effective action would be better with the former since disinterested little states would not be hindrances. Litvinov said that it was unfortunate that the United States and the Soviet Union did not have a common basis for action since the United States was not a member of the League and [since] the Soviet Union, in view of the absence of relations with Portugal and Holland, could not be an adherent to the treaty. He did not indicate whether the Soviet Union if given the opportunity would be willing to adhere to the treaty.

Yen stated that he also asked Litvinov what the Soviet Government would do should Japan take armed action against Mongolia. Litvinov replied that in his opinion no such action would be taken in the near future despite the threatening tone of the recent announcement of the Minister for Foreign Affairs of "Manchukuo." In case of such action the policy of the Soviet Union would be based upon the exigencies of the situation. Yen said that he had not been able to ascertain precisely what the Mongolian Mission in Moscow was doing. He felt sure, however, that it was negotiating arrangements whereby in case of attack it would receive assistance from the Soviet Union.

A Soviet official close to the Kremlin stated recently to members of the staff that the Soviet Government would regard any Japanese aggression in Outer Mongolia as a "threat to the territorial integrity" of the Soviet Union and would act accordingly. He added that the Soviet Government did not believe that aggression was likely at the present time and that in his opinion if aggression would be postponed for one month changed conditions would make it practically impossible for Japan to attack Mongolia. He declined to elaborate upon these statements.

A large Mongolian delegation headed by the Prime Minister and the Minister for War arrived in Moscow on December 12 and was given a demonstrative reception at the railway station by high Soviet military and civilian officials.

Sakoh, Counsellor of the Japanese Embassy, informed a member of the staff yesterday that he understood that following the arrival of the Mongolian Mission there were taking place in Moscow conferences of the leaders of all of the important Mongolian tribes of both the Soviet Union and of Outer Mongolia including [Tannu?] Tuva. Sakoh thought the conferences might have one of the following results: First, the application of Mongolia and [Tannu?] Tuva to become a constituent republic of the Soviet Union or, second, the conclusion of a defensive alliance between the Soviet Union and Mongolia against aggression from the East.

Sakoh also said that although he did not believe that the Kwantung armed forces would invade Mongolia during this season of the year "anything was possible insofar as the Kwantung Army was concerned".

High Soviet military officials insist that the visit is of a routine nature similar in character to that made last year.

For the Soviet Government to annex what the world still considers as a part of China or to make commitments which would limit its maneuvering possibilities in the Far East would be a surprising reversal of policies hitherto followed.

HENDERSON

793.94/7528 : Telegram

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

PEIPING, December 14, 1935—2 p. m.
[Received 2:55 p. m.]

227. Embassy's 226, December 13, 7 p. m.[84] The Consulate General at Tientsin reports that according to two military sources withdrawal northward of Japanese forces to Shanhaikwan began December 11 and is still continuing; that the Japanese garrison there is nearly normal now; that of 20 planes 10 remain; that war supplies have been removed; that of 3 armored trains 2 have gone north with troops.

2. This withdrawal may well indicate a satisfaction on the part of the Japanese military with the situation in North China.

3. In this connection a Reuter report of yesterday from Tokyo is of possible interest. According to this report the current conference at Tientsin of Japanese military officers including Kita who has just

[84] Not printed.

arrived from Tokyo "is reported to have decided to regard the new regime as a self-contained administrative body virtually independent of the Nanking Government and 'consequently all negotiations relating to North China affairs will be conducted with the new North China Committee with which negotiations will be opened forthwith to expedite the establishment of a common front against the advance of the communist influence'." The report also states that important conclusions were reached with respect to reorganization and the probable strengthening of the Japanese garrison in North China.

JOHNSON

793.94/7539 : Telegram

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

PEIPING, December 18, 1935—4 p. m.
[Received December 19—12 : 30 a. m.]

233. Embassy's 230, December 16, 4 p. m.[85]

[1.] There have been no student demonstrations since December 16. However, students in a number of institutions still refuse to attend classes. The Japanese Assistant Military Attaché is reliably reported to have presented demands to the local authorities December 16 containing the following:

(1) Mei Yi-chi, President of Tsing Hua, and Chiang Monlin, Chancellor of the National University of Peiping, having instigated the students should be punished and forced to leave Peiping;
(2) The schools participating in the demonstrations [at] Peiping, which includes the majority of schools of middle-school grade and above, should be closed; and
(3) The police should be punished for their inefficient handling of the situation.

2. The Hopei-Chahar Political Council was inaugurated this morning with only Wang Keh-min, Chow Tso-ming and Cheng Keh absent. Ko Ting-yuan, who has been Sung Che-yuan's representative at Nanking until recently, was appointed Secretary General of the Council. Liu Che, Wang I-tang, and Chin Teh-chun were made the standing committee.

3. The situation at Tangku is obscure, but it would appear that the Japanese intend to extend the demilitarized zone to include that city so that they will control access of Tientsin from the sea. Observers in Tientsin anticipate that the zone will be extended possibly to Tientsin.

Repeated to Nanking; by mail to Tokyo.

JOHNSON

---

[85] Not printed.

711.9411/14

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

No. 1600 TOKYO, December 18, 1935.
[Received January 13, 1936.]

SIR: The British Ambassador told me today that in a recent conversation with the Minister for Foreign Affairs, Mr. Hirota had said to him that war between either Japan and the United States or Japan and Great Britain was out of the question and that as soon as some "general understanding" could be reached between these countries with a view to affording security for the future the naval problem and the oil problem and other outstanding issues would rapidly solve themselves. Mr. Hirota's remark was occasioned by a suggestion on the part of Sir Robert Clive that, since the oil difficulties arose from the desire of the Japanese military and naval authorities to assure themselves of an adequate supply of oil in the case of war, a guarantee by the oil companies to supply a given quantity of oil for a definite period, of say ten years, might be sufficient to satisfy these demands.

The Ambassador received the distinct impression that in making the foregoing remarks Mr. Hirota had in mind the tentative proposal for the conclusion of non-aggression pacts which had been mentioned in the press from time to time last year. The Ambassador was convinced that Japan could, under no circumstances, participate in a general pact including the other countries in the Far East because, in the first place, the Japanese are suspicious of multilateral conventions and, in the second place, they could not afford, under present circumstances, to include either Soviet Russia or China in any such non-aggression pact. The thought of separate pacts with the United States and Great Britain, however, appears still to be in the Minister's mind as a possible future eventuality.

In this connection the Ambassador said that the Japanese military officers with whom one comes into touch in Tokyo are still talking of eventual war between Japan and Soviet Russia as absolutely inevitable.

Respectfully yours, JOSEPH C. GREW

893.01 Outer Mongolia/46 : Telegram

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

Moscow, December 20, 1935—3 p. m.
[Received December 20—12 : 10 p. m.]

532. Tass communiqué December 19th from Ulan Bator published in today's *Pravda* reports serious incident on Mongolo-Manchurian

frontier near Buir-Nor. Motorized detachment of 10 Japanese motor vehicles, including ambulance, fired upon Mongolian frontier guards, to whom orders had been issued in advance to retreat in the face of Japanese provocations. Several Mongols reported killed.

Today's announcement follows warning issued in Soviet press December 18th that provocations on the part of Kwantung Army were about to take place. No editorial comment.

Soviet officials continue in private conversation to minimize seriousness of Mongolian-"Manchukuo" disturbances. One of them yesterday stated that Soviet Government feels that Japan will continue to stir up trouble in Outer Mongolia in order to use situation as a bargaining point in negotiations relating to other subjects. He also flatly denied that the Soviet Government had any intentions to sign a defensive alliance with Mongolia at the present time.

HENDERSON

793.94/7551 : Telegram

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

PEIPING, December 20, 1935—4 p. m.
[Received December 20—9 : 10 a. m.]

236. According to an American, long resident in Peiping with close associations with Chinese, Tada who came to Peiping yesterday left for Tientsin this morning with Doihara having come to an agreement with Sung Cheh-yuan to let the new Political Council function for 3 months on trial.

2. This informant stated that Sung has told Yin Ju-keng that he should abandon his present position and return to his former work and that if Yin does not Sung will report it to Nanking following which if Nanking reaffirms the order for Yin's arrest Sung will carry out that order.

Repeated to Nanking, by mail to Tokyo.

JOHNSON

793.94/7557 : Telegram

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

PEIPING, December 21, 1935—3 p. m.
[Received December 21—7 : 12 a. m.]

240. Following from Nanking:

"December 20, 11 a. m. The Japanese Ambassador informed me this morning that he had his anticipated conversation with Chiang Kai-shek yesterday but that they did not go into the details of pending issues. The Ambassador said, however, that Chiang Kai-shek would continue the international policy announced by Wang Ching-wei in January last. From other sources I am reliably informed that

the Ambassador expressed the disappointment of the Japanese Government that the good effect anticipated from the recent changes in North China had been marred by the action of the Chinese authorities in permitting recrudescence of student agitation and that the Ambassador said that while the Japanese Government intended to continue a policy of friendly cooperation with China it reserved liberty to act as circumstances might dictate."

JOHNSON

793.94/7560 : Telegram

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

PEIPING, December 23, 1935—4 p. m.
[Received December 23—10:20 a. m.]

243. Embassy's 236, December 20, 4 p. m.

1. It has been generally accepted here now that the Japanese military concerned have informed the local Chinese authorities that they will give the new Council a trial of 3 months. The additional Japanese troops mentioned in Embassy's No. 179, November 27, 10 a. m., have left together with about 180 from Tientsin. There still remain six Japanese soldiers at Fengtai checking movements of freight cars. The Japanese appear to have transferred from Peiping Counsellor of Embassy Wakasugi leaving the Embassy here in charge of First Secretary Muto who is overshadowed by the Japanese Assistant Military Attaché and Japan's "unofficial" military representative General Doihara who is again in Peiping. A situation has therefore been created in which all Sino-Japanese matters here will probably be handled between Chinese military and Japanese officials and "unofficial" military principally the latter who will continue to exercise pressure of an uncertain and secret kind upon the local authorities. Chinese leaders here are understood to be wholly pessimistic of the future.

2. Although confirmation is lacking all foreign and Chinese observers are of the opinion that official and unofficial Japanese military are now pressing for a solution of conditions in that part of Chahar which is north of Kalgan and extends into Inner Mongolia, which will result in separating that area from Chinese control.

By mail to Tokyo.

JOHNSON

793.94/7562 : Telegram

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

SHANGHAI, December 24, 1935—noon.
[Received December 24—10:45 a. m.]

788. Referring to my telegram December 21, 1 p. m.[86]

1. Four hundred students took possession of North Station yesterday afternoon demanding transportation to Nanking for the purpose of interviewing Government leaders. Railway authorities refused transportation and removed all available locomotives. However, students remained in coaches and refused to leave although strongly urged to do so by university authorities and representatives of city government. According to local foreign press General Chiang Kai-shek also telegraphed students expressing understanding of their patriotic motives by which he stated he was also actuated and urged them to return to their schools. Chinese authorities cleared station of spectators and threw cordon of privates around North Station. Other precautionary measures were also taken.

2. However, students did not disperse during night and this morning a further group of five hundred clashed with Settlement police while attempting to distribute pamphlets which police describe as anti-imperialistic, slightly anti-Japanese but not communistic in tenor. Students' groups now acting in coordinated manner and reported by Settlement police to be forming into three groups, one of which is to seize Shanghai South Station, another at North Station and third group to operate as needed. Chinese authorities appear to be reluctant to use force to disperse students but due to increasing activity of these elements' endeavor to bring about complete disruption of railway traffic out of Shanghai they may be forced to employ more energetic methods and eject students from North Station by force.

Repeated to Department, Embassy at Peiping and Nanking.

DAVIS

793.94/7563 : Telegram

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

SHANGHAI, December 24, 1935—3 p. m.
[Received December 24—10:30 a. m.]

789. My telegram December 24, noon. Reliably informed through police channels that chief of staff Japanese naval landing force has stated to British military intelligence officer that they were taking a serious view of developments in Shanghai and that the time had come for the National Army authorities to take a stronger stand. They felt he said that some Settlement police would be capable

[86] Not printed.

of coping with the situation but expressed lack of confidence in the ability of the Chinese authorities to do so in territory controlled by them. They are, therefore, holding themselves in readiness to take action if necessary. He added that the Japanese naval landing party would not act without consulting their consular authorities, but in the event they decide to use their forces they will act independently.

Repeated to Department and Nanking.

DAVIS

793.94/7564 : Telegram

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

SHANGHAI, December 24, 1935—5 p. m.
[Received December 24—2:30 p. m.]

790. 1. The situation described in my Dec. 24, noon, and Dec. 24, 3 p. m. has not improved. Police sources say number of students at North Station has increased. Pamphlets thrown from trucks in front of barracks irritated Japanese landing forces and led Japanese Consul General to protest to Settlement and Chinese authorities. Students also demonstrated in Nanking and Range Roads areas in Settlement, resisting police. A number of students, including some girls, reported injured.

2. Because of reports that communistic elements are active among the students, the Chinese authorities have let it be known that they are prepared to take forceful measures if necessary. Agents of the Social Bureau of Chinese Municipality and presidents of various universities are said to be endeavoring to persuade the students to disperse. In the event of failure, it is reported the Chinese authorities will supply trains to take students out of Shanghai. About 400 students held a meeting this afternoon in the Chinese Y. M. C. A. on Szechuan Road. The management has been warned by the police that such meetings must cease.

3. The Shanghai Municipal Police have taken special precautions to meet emergencies, reserves are on duty at the Hongkew Police Station and two platoons of the Russian detachment of the Shanghai Volunteer Corps [have] been [assigned to?] the Hongkew and West Hongkew stations, respectively while four platoons are being held in readiness for service. Reinforcements of Chinese troops at the North Station from the Peace Preservation Corps are prepared to include 200 men armed with machine guns, rifles and Mausers. The troops already at the station are understood to be armed with bamboo poles. The Japanese naval landing party have increased the strength of the police authorities this afternoon.

Repeated to the Department and Nanking.

DAVIS

793.94/7565 : Telegram

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

SHANGHAI, December 24, 1935—7 p. m.
[Received December 24—6 p. m.]

792. 1. My December 24, 3 p. m. and December 24, 5 p. m. Efforts to disperse students by peaceful means exhausted. Police report that some 2,000 were permitted to board train and to leave Shanghai bound ostensibly for Nanking but more likely for some intermediate point.

2. The Japanese Military Attaché told *New York Times* correspondent for his information and not for public information that the Army, Navy and Foreign Office have agreed to permit student demonstrations to run their course resorting only to local protests until the first part of next week when they plan to make concerted demands which will precipitate a real crisis. He said that it was useless to deal with the present Government because it will not cooperate with Japan and that the present student uprising may lead to its downfall because the Chinese who disapprove the usual course of force in putting it down on the one hand and the Japanese will not [permit] the movement's going development [*sic*] too far on the other. He said the Foreign Office three-point program was in the discard and that word had been sent to the Nanking Government that the development of another anti-Japanese boycott would not be tolerated.

3. The *Times* correspondent says [Japanese?] are convinced that anti-Chiang Kai-shek elements in the Nationalist Party are at the bottom of these disturbances.

Repeated to Department and Nanking.

DAVIS

793.94/7571 : Telegram

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

SHANGHAI, December 25, 1935—11 a. m.
[Received December 25—9 a. m.]

793. My December 24, 5 p. m. and December 24, 7 p. m. Following departure of two trainloads of students Chinese authorities succeeded in dispersing student groups at North Station and so far as is known effected dispersal without serious injury to anyone.

1. Train stopped at Kunshan about 50 miles from here due to alleged engine trouble and the other at Soochow on a similar pretext. Chinese authorities thereupon commenced to negotiate with the students and endeavored to extract from them a guarantee of good behavior and a promise to refrain from further demonstrations if they were taken back to Shanghai. Reliably informed this morning that the students have refused thus far to give the desired guarantee and that negotia-

tions are continuing; also reliably reported that two small groups of students are engaged this morning in lecturing and distributing handbills in the Nantao and Siccawei areas and that they may attempt to enter the Settlement later. Situation generally easier.

Repeated to Department and Nanking.

DAVIS

793.94/7570 : Telegram

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

PEIPING, December 26, 1935—noon.
[Received December 26—7 a. m.]

246. Following from Shanghai:

"December 25, 11 p. m. Tang Yu-jen, former Vice Minister of Foreign Affairs, was assassinated at 4:45 p. m. today outside premises at 235 Rue Gaston Kahn, Shanghai. It is consensus of opinion that same forces which attempted assassination of Wang Ching-wei are responsible. It is understood that serious view is taken by Japanese Embassy and that its spokesman has said that this event demonstrates inability of authorities to prevent outrages perpetrated by elements inimical to Sino-Japanese cooperation."

JOHNSON

793.94/7573 : Telegram

The Second Secretary of Embassy in China (Atcheson) to the Secretary of State

NANKING, December 26, 1935—3 p. m.
[Received December 26—10:55 a. m.]

154. Shanghai's 793, December 25, 11 a. m.

1. Some of the Shanghai students are reported to have reached Changchow (Wutsin) about half way to Nanking this morning. I am reliably informed that a train of heavily armed gendarmes has been despatched from Nanking to that place and that Chiang Kai-shek has ordered the rails torn up if necessary to stop the students' approach.

2. The possibility that the Shanghai students would reach Nanking and threats of difficulty with local student bodies impelled the National Government yesterday to issue a mandate stating that bad characters were taking advantage of the situation to create disorders and shouting that martial law be declared in important areas. Nanking has been under martial law since last night.

3. No student demonstrations have occurred in Nanking since December 19 probably because Chiang Kai-shek on December 23 invited

educational heads and student representatives to meet with him in Nanking January 15 and issued orders to the Ministry of Education that students should devote themselves to studying.

4. Suma yesterday called "unofficially" upon the Minister for Foreign Affairs to bring to latter's attention the anti-Japanese character of the student demonstrations. To a foreign news correspondent this morning Suma characterized the lack of control over the students as a "glaring example of the National Government's impotence".

5. Repeated to the Department, Peiping and Shanghai.

ATCHESON

793.94/7580 : Telegram

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

PEIPING, December 27, 1935—3 p. m.
[Received December 27—2 p. m.]

247. Embassy's 243, December 23, 4 p. m.

1. Hopei-Chahar Political Council appointed Chen Chueh-cheng acting managing director of the Peiping-Mukden Railway without prior approval of the National Government. Chen assisted by some 20 members of the Peace Preservation Corps and some 20 railway men took over the Tientsin offices of the railway December 26. Chen, who is an adviser of General Sung, has a Japanese mother and has been an important negotiator between the Japanese and Sung's group. The act was perhaps hastened by the knowledge that the Minister of Railways was to arrive at Tientsin this morning. This act may be the beginning of a series of acts by which the Hopei-Chahar Political Council will take over charge of various organs hitherto controlled by the National Government. Each act will increase the indefinite character of the Sung regime.

2. Yin Ju-keng declared December 26 vacancy in his autonomous Government and he has assumed the title of Governor. This is presumably intended to indicate an even greater independence of his regime than heretofore existed.

3. There are unconfirmed reports that Teh Wang declared a few days ago the independence of the Mongolian autonomous Political Council. If this has not yet taken place it is anticipated that it may shortly occur as there is little if any possibility that Teh [Wang] will find relief from Japanese pressure on him to effect this step.

4. Doihara is reported to have left Tientsin December 26 for Hsinking for consultation.

By mail to Tokyo.

JOHNSON

793.94/7578 : Telegram

The Second Secretary of Embassy in China (Atcheson) to the Secretary of State

NANKING, December 27, 1935—5 p. m.
[Received December 27—12 : 35 p. m.]

157. My 155, December 27, 3 p. m.[87] I am reliably informed that after discussions with the Government representatives the Shanghai students at Wusih entrained for Shanghai at 3 o'clock this afternoon.

ATCHESON

794.00/91

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

No. 1607 TOKYO, December 27, 1935.
[Received January 13, 1936.]

SIR: I have the honor to enclose herewith a memorandum of a conversation of Mr. Dickover, a member of the staff of this Embassy, with Mr. Saburo Kurusu, the Chief of the Bureau of Commercial Affairs of the Japanese Foreign Office, on December 22, 1935. Mr. Kurusu spoke frankly, and undoubtedly reflected what is in the minds of many Japanese today. The conversation is interesting, in that it is seldom that a Japanese, especially one of high official position, will allow himself to express the aims of his people so freely.

While Mr. Kurusu spoke so frankly principally through a feeling of friendliness, he probably had in mind also the idea of conveying to his listener the thought that it would be best to leave Japan alone to work out her destiny in the Far East.

Respectfully yours, JOSEPH C. GREW

[Enclosure]

Memorandum by the First Secretary of Embassy in Japan (Dickover)

[TOKYO,] December 23, 1935.

In the course of an extended conversation last evening, Mr. Kurusu said that foreign countries were criticizing the Japanese people for the part Japan was playing in China, but that foreign peoples did not understand what it was all about. I objected to this and said that, judging from the tone of newspaper and magazine articles published in the United States, the American people were well informed about the exhaustion of economic opportunity in Japan, the active and pro-

[87] Not printed.

gressive character of the Japanese people, and their desire to take control of and develop the unexploited economic resources of China. I said that they might not be in sympathy with the military measures employed, but that they understood the background very well.

Kurusu said that what I had said was not the whole story. He said that Japan was destined to be the leader of the Oriental civilization and would in course of time be the "boss" of a group comprising China, India, the Netherlands East Indies, etc. (Mr. Kurusu did not say that Japan would conquer and rule these countries, but that Japan would be the "boss". When speaking informally with friends, he uses very colloquial English.) He proceeded to say that the United States will lead the Americas, both North and South. Great Britain is leading the European countries, but Great Britain is degenerating, while the rest of Europe is decadent. Therefore it will end by the United States leading the Occidental civilization, while Japan leads the Oriental civilization.

I asked where Soviet Russia came into the picture. Mr. Kurusu said that the Russians were dreamers and never would "amount to anything". Japan will in the future have its sphere in the Orient, the United States in the Americas, and Great Britain in Europe, Africa and Australia, but the two big nations, the real leaders, will be Japan in the Orient and the United States in the Occident.

I asked Mr. Kurusu how he reconciled this theory with the treaties for collective security which Japan had signed. Mr. Kurusu said that he had always been opposed to Japan's hypocritical attitude toward such things. He said that he had just recently made a speech before a society for the study of international affairs, criticizing his own country for signing agreements which could not be carried out if Japan wanted to progress in this world.

Mr. Kurusu then went on to say that while Japan might lead the Orient and the United States the Occident, they must not fight, as that would be suicidal. They must find some means of getting together. I asked him if he thought that the League of Nations might not be the seed of some sort of future conciliatory medium. He said that it might be, but that the League was too narrow, as it looked to maintaining the *status quo*, whereas nations are not static—they are born, grow up and gradually die. I quoted from Wells' "Outline of History" (first paragraph of Chapter 34) to show that Wells had the same idea. Mr. Kurusu agreed with Wells entirely, and said that he thought that the United States and Japan could work out the solution themselves in time, as both countries were much alike—active, progressive and sensible.

E[RLE] R. D[ICKOVER]

792998—53——39

793.94/7609 : Telegram

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

NANKING, December 31, 1935— 11 a. m.
[Received December 31—7 : 15 a. m.[88]]

160. 1. The Associated Press correspondent states that as a result of repeated inquiries by himself and other correspondents the Foreign Office last evening handed to him and representatives of foreign and Chinese news services the following statement with the stipulation that the source should not be published:

2. It has now been confirmed in Chinese official circles that a proposal for the fundamental readjustment of Sino-Japanese relations through proper diplomatic channels has been put forward by the Chinese Government to the Japanese Government which is said to have expressed agreement in principle.

The matter, however, is yet confined to a preliminary exchange of opinions between the Japanese and the Chinese Foreign Office and no discussions of concrete plans or any particular question has taken place, it is learned.

The Chinese authorities are said to be anxious to remove the utter confusion and irregularities that have characterized Sino-Japanese relations since the Mukden incident. The many and various questions that have arisen during the past 4 years have, it is admitted, often been dealt with in a makeshift manner which met only with the immediate exigencies of the moment. This lack of adequate consideration for a fundamental settlement is regarded to have culminated in an extraordinary state of affairs which is considered to be detrimental to the welfare of both China and Japan.

The present moment, being apparently deemed opportune, has therefore been seized upon to bring about the desired readjustment and to place the conduct of Sino-Japanese relations on a proper diplomatic basis.

PECK

893.00/13348

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

No. 147 PEIPING, January 3, 1936.
[Received January 27, 1936.]

SIR: I have the honor to refer to the Legation's despatch No. 3675 of July 12, 1935, reviewing the political, military, and economic developments in China during the first six months of 1935, and to submit a similar review of the last six months of that year.

[88] Telegram in two sections.

(It may be recalled that important developments which took place during the first half of 1935 derived significance from their relation to the struggle between General Chiang Kai-shek to unify China and forces working for disintegration. In brief, these developments were as follows: (1) General Chiang, as a result of his campaign against communist forces in west and southwest China, brought under substantial control the provincial administrations of Szechuan and Kweichow Provinces, failing to prevent, however, the junction in western Szechuan of communist forces already in that province and communist forces arriving from their former stronghold in Kiangsi Province; (2) his success in the west was offset by the activities of the Japanese military who, dissatisfied with the conduct of Sino-Japanese affairs by Japanese diplomats, took the conduct of those affairs into their own hands and presented in May and June (and caused to be carried out in large measure) demands which prepared for the establishment of a regime in North China practically independent of the National Government and subservient to Japanese direction; and (3) the possibility of a unified China was rendered further unlikely by the continuing deterioration of China's economy and finance.)

China's situation appeared at the end of December 1935 to be even more precarious than at the end of the first half of the year in respect to national unity (which includes the factor of national independence), Sino-Japanese relations, communism, finance, and economy. And more and more the immediate future of those aspects seemed to depend upon the course which General Chiang Kai-shek would pursue.

Events moved faster during the second half of 1935 (especially during November and December), the principal events of the six months under review being as follows: (1) communication by the Japanese Minister for Foreign Affairs to the Chinese Ambassador at Tokyo of the so-called three point program for the solution of Sino-Japanese differences, the communication presumably being made in July although it did not become known until October; (2) the flooding of the Yellow and Yangtze Rivers (July and August) and the changing of the course of the Yellow River; (3) the appointment of General Sung Che-yuan as Garrison Commander of Peiping and Tientsin (August 28); (4) the abolition of the Peiping Political Affairs Readjustment Committee (August 28); (5) the arrival of Sir Frederick Leith-Ross, British financial expert (September 21); (6) Major General Hayao Tada's statement (September 24); (7) report of Japan's so-called unified policy made by representatives of the Japanese Ministries of Foreign Affairs, War, and Navy to their officers in China (October); (8) attempted assassination of the President of the Executive Yuan, Mr. Wang Ching-wei (November 1); (9) the

decree of the National Government nationalizing silver and making the note issues of the three Government banks legal tender throughout China (November 3); (10) arrival of Major General Doihara at Tientsin (November 6); (11) meeting of the Central Executive and Supervisory Committees (November 1–6); (12) meeting of the Fifth Kuomintang Congress (November 12–23); (13) declaration by Mr. Yin Ju-keng establishing the Eastern Hopei Communist Prevention Autonomous Council (November 25); (14) abolition of the Peiping Branch Military Council (November 30); (15) appointment of General Chiang Kai-shek as President of the Executive Yuan (December 7); (16) student demonstrations against Japanese aggression (December); (17) the inauguration of the Hopei-Chahar Political Council (December 18); (18) the assassination of the Administrative Vice Minister for Foreign Affairs, Mr. Tang Yu-jen (December 25); and (19) the proposal by Chinese authorities that Sino-Japanese questions be settled by a commission (December 27).

A. *Sino-Japanese relations*:

Having prepared in May and June the stage for the establishment in North China of a new regime, the Japanese military waited during the next four months for North China leaders to create such a regime; at the same time, they were evidently busily engaged in preparing the ground for fresh activities, knowing that the Chinese would probably make but minor changes on their own initiative. Then, much in the manner in which the raising of the Japanese Legation to an Embassy had reacted in May on the Japanese military, the arrival of Sir Frederick Leith-Ross and the apparent effect of his conversations with Chinese leaders on the Chinese monetary policy, as reflected in the Monetary Decree of November 3, precipitated the Japanese military into vigorously pressing the northern leaders for creation of a new regime. (This monetary decree was regarded by the Japanese military as a British manoeuvre to check the Japanese, as presaging a possible strengthening of the National Government, and as threatening to drain North China of its silver. The possibility of silver's flowing southward from North China to Shanghai impelled the Japanese military to activity because they had finally abandoned the idea, it was understood, of developing North China economically with Japanese capital, perhaps as a result of the reluctance of Japanese capitalists to invest in that area, as a result of their experience with "Manchukuo" and the Nishihara loans, and had decided that a satisfactory development of the region could be made with the wealth already existing there.) Renewed Japanese pressure, assisted by self-seeking Chinese, brought about the formation on December 18 of a new regime for Hopei and Chahar Provinces under General Sung Che-yuan. Although it was created nominally by ac-

tion of the National Government and was not styled as autonomous, it was obviously a significant step forward toward the eventual separation of North China from the National Government. At the end of the year it seemed clear that either through this regime or through some regime which might take its place these two provinces—and subsequently Shantung, Shansi, and Suiyuan—would probably come under the substantial influence of the Japanese.

Meanwhile, the Japanese military were steadily extending their control in Inner Mongolia (in Chahar). Although developments there were obscure, it appeared that, in order to obtain the concurrence of the Chinese leaders of Chahar to the separation from their authority of all of Chahar north of the Great Wall, the Japanese military were using effectively the agreement entered into on June 27, 1935, by which a minor incident which had occurred on June 5 in the vicinity of Kalgan had been settled. Chinese began to hope that from this strategic thrust of the Japanese toward Soviet Russia might evolve some benefit to China.

A further advantage to the Japanese in their relations with China was the emergence of General Chiang Kai-shek from west China and his assumption of the presidency of the Executive Yuan, a development which meant that he would deal directly with the Japanese and be primarily responsible for the progress of Sino-Japanese relations. General Chiang's position became, as a result, not only stronger in some respects but also more precarious for the reason that it seemed that he would have only two alternatives, one being to make agreements with the Japanese which would seriously impair the independence of China and the other being to resist by force of arms. (Any agreement would, it was thought, be based on Mr. Hirota's so-called three points, which were understood to be (*a*) cooperation against spread of communism in North China, (*b*) abandonment by China of playing one nation against another, which means abandonment of independent relations with all countries but Japan, and (*c*) "cooperation" between Japan, China, and "Manchukuo", each point being susceptible to widely varying interpretations.) The Chinese manoeuvre at the close of the year of proposing to Japan that Sino-Japanese relations be adjusted by a Sino-Japanese commission seemed likely to fail of obtaining for the Chinese much of a respite before having to subscribe to Japanese dictation or—less probably—to resist with force. It seemed improbable that the Japanese would be prepared to accept a really definitive arrangement which would have the effect of limiting their advance in Asia Although, during the period under review, many Chinese became increasingly vocal with regard to the advisability of war, presumably only General Chiang Kai-shek knew whether or not there existed a limit to Chinese submission.

The dangers lying in the way of continued Japanese success appeared to be the possibility that General Chiang and the National Government might be forced into armed resistance to unlimited Japanese ambition or, failing that, the possibility that capitulation on their part to Japanese demands might evoke a popular opposition, as indicated by the nation-wide demonstrations of students during December, which in conjunction with such other dissatisfied elements in China as communists might lead to the downfall of General Chiang and the National Government and create a chaotic situation which would increase Japan's difficulties in extending its control over China.

B. *National Unity: Communism: the Southwest:*

The inevitability of the loss to the National Government of North China was not offset during the period under review by any extension of General Chiang's power over other parts of China only nominally under the control of the National Government. In fact, his recently acquired influence in west China was later weakened, because his enforced absence from that area as the result of his taking over the presidency of the Executive Yuan brought renewed and successful advances by communist forces in Szechuan and prevented him from dealing effectively with the growing communist menace in the Provinces of Shensi and Kansu which had followed his failure to "bottle up" those forces when they had been in the mountain fastnesses of Szechuan. Nor was the Southwest in any closer alignment with the National Government at the close of the period under review than it had been at the beginning, notwithstanding the election in November of a greater number of Kwangsi and Kwangtung representatives to the Central Executive and Supervisory Committees of the Kuomintang and notwithstanding the fact that a larger number than previously of important civilians of the Southwest attended the meetings of those two committees and of the Fifth Kuomintang Congress. It seemed that the only basis for unity would be the adoption by General Chiang Kai-shek of a policy of armed resistance to Japan, but even such a development as this might be used, it was thought, by the military leaders of the Southwest to seize control of the National Government rather than to cooperate in resisting the foreign invader.

C. *Finance and Economics:*

The monetary decree of the National Government of November 3, designed to cure China's financial and economic ills, although technically not impracticable, was so delayed from the point of view of China's financial and economic deterioration and so hastily put through from the point of view of preparation that the probable effects of the decree were not regarded with optimism. It seemed probable that the arrival of Sir Frederick Leith-Ross (September 21)

to study China's financial condition had been interpreted by the Chinese authorities as meaning that a British loan would be forthcoming if they followed Leith-Ross's advice and that, after hearing his suggestions, which were not given under any such assumption, the Chinese authorities took quick action in line with those suggestions, but no British loan was forthcoming. Meanwhile, the situation of the masses was not improved: the inability of the authorities to implement adequately the monetary decree, the popular fear of impending inflation, the decline in purchasing power, and stringent financial and commercial conditions, together with natural calamities and general deterioration of the agricultural situation, increased the already heavy burdens of the people.

D. *China's Periphery*:

Except for the loss in effect of Inner Mongolia in Chahar to Japanese direction, the situation in other border areas of China did not alter materially in so far as was known. No progress was made toward any extension of Chinese control over Sinkiang or Tibet, and the Sino-British Commission for the delimitation of the disputed Burma-Yunnan border had not yet met by the time the period under review came to a close.

E. *Western Nations*:

There became more clearly delineated a parallel between the fate of the interests of Western nations in Manchuria during the past four years and the possible fate of the interests of the Western nations in China Proper, and more especially in North China, if the Japanese program with regard to China were to succeed. The parallel was made the more vivid (1) by the reaction of the Japanese authorities, diplomatic and military, to the visit of Sir Frederick Leith-Ross and to the monetary decree of November 3 which they regarded as an outcome of his activities, their attitude indicating plainly that Japan regards China as an area in which Japan has a highly special and privileged position and interests, (2) by the continuing increase of Japanese control in North China, including Inner Mongolia, and (3) less importantly by evidences of the development of Japanese propaganda intended to turn the Chinese against the Western powers. With European nations during the period under review concerned primarily with the Italo-Abyssinian conflict, no significant attempt was made by any Western power to preserve its interests in China in the face of Japanese determination, unless the visit of Leith-Ross was intended as such.

Respectfully yours, NELSON TRUSLER JOHNSON

CHINA

RAISING OF THE AMERICAN LEGATION IN CHINA TO THE STATUS OF EMBASSY AND ABOLITION OF THE CONSULATE GENERAL AT NANKING[1]

701.9493/88 : Telegram

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

TOKYO, May 9, 1935—noon.
[Received May 9—6:22 a. m.]

101. 1. The Vice Minister for Foreign Affairs[2] sent for me this morning and informed me of the decision of the Japanese Government to raise its diplomatic mission in China to the status of an Embassy within the next few weeks. He added that his Government "would be only too pleased" if the Government of the United States should decide to take the same step and that the publication of the Japanese decision would be held up for a week or 10 days in case the American Government should wish to take simultaneous action.

2. The Vice Minister said that when the Italian Government recently raised its mission in China to the status of an Embassy, the British Ambassador had raised the point that there had been an understanding among the principal powers interested in China that such a step would not be taken without prior consultation. The Vice Minister said that he had therefore carefully examined the archives and had ascertained that no assurances of consultation had been given by the Japanese Government owing to the fact that for the past 10 years the Foreign Office budget had provided for an Embassy in China and that the Government was only awaiting a favorable moment to put into effect this decision already long ago taken in principle. (See our 220, October 9, 5 p. m., 1934[3]).

3. The Vice Minister, in reply to my inquiry as to the reasons for taking the step at this particular moment, replied that it envisaged no alteration whatever in Japan's relations with China. As technical point of view the step was taken to permit Ariyoshi[4] to return to China with the ambassadorial rank to which he was already entitled, having been formerly Ambassador to Brazil. He could not be expected

[1] For previous correspondence, see *Foreign Relations*, 1934, vol. III, pp. 535 ff.
[2] Mamoru Shigemitsu.
[3] *Foreign Relations*, 1934, vol. III, p. 540.
[4] Akira Ariyoshi, Japanese Minister in China.

to remain longer in China as a Minister and they needed his continued services. From the practical point of view the Foreign Office wished its representative to enjoy the greater prestige and influence which would accrue from ambassadorial rank necessary to "keeping in order" the many military, naval and industrial Japanese in China who far exceed in number those of the United States or of other nations. From this point of view, he said, Japan's position in China is a "special" one.

4. The Vice Minister said he was aware that the Chinese Minister in Tokyo [5] would welcome the raising of his mission to Japan to the status of an Embassy and himself to the rank of Ambassador because it would give him more influence at home but Shigemitsu said he did not know whether the Government in Nanking would decide to take reciprocal action.

5. The Vice Minister said that he proposed to convey the foregoing information also to the British, French and German Ambassadors.

Repeated to Peiping.

GREW

124.93/283

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

[WASHINGTON,] May 9, 1935.

Tokyo's telegram 101, May 9, noon, reports that the Japanese Government has decided to raise its diplomatic mission in China to the status of an embassy within the next few weeks; that the Japanese Government "would be only too pleased" if the American Government should decide to take the same step; and that publication of the Japanese Government's decision would be held up for a week or ten days in order to afford the American Government opportunity to take, should it so desire, simultaneous action.

The question of raising our Legation in China to the grade of Embassy has been raised (usually by the Chinese) at intervals over the period of the last twenty years. Until recently, the reply of the powers, with the exception of the Soviet Union, has always been adverse. Last year the Italian Government, out of a clear sky, decided to take this step. The action of the Italian Government has been regretted by the governments of several other powers and was severely criticized by the British Government.

The fact that the Japanese Government has decided to raise its diplomatic mission in China to the status of an embassy presents a situation somewhat unlike any presented heretofore. The raising by

---

[5] Tsiang Tso-pin.

the Soviet Union and by Italy of their diplomatic missions to the grade of embassy has had in China no great effect toward raising the prestige of those countries nor toward lowering the prestige of countries such as the United States, Great Britain, Japan and France. However, should Japan's action be not followed by similar action on the part of the other principally interested powers, it is believed that Japan's prestige would be enhanced and the prestige of the United States and other countries would be lowered. Moreover, should the United States not take similar action, it would be a reasonable supposition that the ill-will toward the United States which has been engendered in China—in some quarters at least—as a result of the American Government's silver purchasing program,[6] might be accentuated.

In this connection it is pertinent to recall that in 1934 the total trade of China with the United States amounted to $124,803,000, 23.2 per cent of China's total foreign trade; imports from the United States accounting for $92,622,000, 26.1 per cent of the total foreign imports; and exports to the United States accounting for $32,181,000, 17.6 per cent of the total exports. China's total trade with the United States is a little less than double its total with Japan and a little more than double its total with Great Britain. In terms of American trade, American exports to China average about four per cent of our total exports and American imports from China average three per cent of our total imports.

The principal considerations against taking this action in the past have been (*a*) that China's position both in internal affairs and in international relations has been so unsettled that there has appeared no warrant for taking a step of this sort which under ordinary circumstances would signalize satisfactory progress, and (*b*) that such a step would increase the cost of its diplomatic representation for each of the countries concerned.

In order to elevate the Legation in China to an Embassy, it is necessary only for the President to appoint, by and with the advice and consent of the Senate, an Ambassador, and for the Congress to change the appropriation by providing a salary for an Ambassador instead of for a Minister.

The action of Japan in giving us prior notice in regard to its decision is cooperative and considerate.

The Japanese Government has given similar notice to the British, the French and the German Governments. As the British Government has in the past approached us in regard to this general question through its Ambassador here in Washington, it may be anticipated

[6] See section entitled "Problem of China's Economic Reconstruction," pp. 526 ff.

that the British Ambassador will call shortly at the Department to discuss the matter. If and when the Ambassador calls, FE [7] suggests that it would be well to ascertain the attitude of the British Government and to be disposed toward taking action along the lines of that which the British Government may take.

It is believed also that this matter should be referred to the President; FE is preparing a draft letter to him.[8]

In case the American Government definitely contemplates raising our Legation in China to the grade of Embassy, we should, in conformity with informal understandings arrived at in the past, consult with the other interested governments.

M[AXWELL] M. H[AMILTON]

701.9493/89 : Telegram

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

NANKING, May 11, 1935—1 p. m.
[Received May 11—5:58 a. m.]

100. Hsu Mo [9] stated to me this morning over the telephone that in a very short time the Chinese Legation in Tokyo and the Japanese Legation in China would be raised to the status of embassies. He asked that this information be treated as confidential and that if the American Government should decide to take similar action with respect to its Legation in China, the Chinese Government would be as pleased as it was with the decision of the Japanese Government.

JOHNSON

701.9493/88 : Telegram

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

WASHINGTON, May 14, 1935—7 p. m.

80. Your 101, May 9, noon.

1. Please inform the Ministry of Foreign Affairs orally and informally that the American Government is proceeding to exchange views on the question of raising the status of diplomatic missions in China with other governments which have been informed by the Japanese Government of its decision in the matter; that the American Government, upon completion of its consideration of the matter, will expect to communicate further with the Japanese Government and that the American Government appreciates the courtesy of the

[7] Division of Far Eastern Affairs, Department of State.
[8] Not printed; it was delivered by hand to the President on May 15.
[9] Chinese Vice Minister for Foreign Affairs.

Japanese Government in giving advance notice of its decision and in affording opportunity for simultaneous action.

2. For your information, reports appeared in the American press under Tokyo date line May 11 in regard to the Japanese Government's decision.

3. Repeat to Peiping as Department's No. 130.

HULL

701.4193/57

The British Embassy to the Department of State [10]

AIDE-MÉMOIRE

Japanese Government having notified His Majesty's Government of their intention to raise status of Japanese Legation in China within the next few weeks and having expressed hope that His Majesty's Government would do likewise, His Majesty's Embassy have been instructed to inform the United States Government, in accordance with the existing understanding between the two Governments in regard to this matter, that, in view of the Japanese decision and of the fact that the Union of Soviet Socialist Republics and Italian Governments already maintain Embassies in China, His Majesty's Government do not feel able further to delay similar action.

WASHINGTON, 14 May, 1935.

701.9493/92 : Telegram

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

TOKYO, May 15, 1935—5 p. m.
[Received May 15—9 : 30 a. m.]

106. 1. Department's 80, May 14, 7 p. m. received and decoded today at 3 p. m. I saw the Minister for Foreign Affairs at 3 : 45 and orally and informally carried out the Department's instructions.

2. The Minister informed me that the Counsellor of the British Embassy had this morning advised the Vice Minister for Foreign Affairs that the British Government had likewise decided to raise its Legation in China to the status of an Embassy. No replies have been received from the French or German Governments.

3. Although all steps have been taken to carry out the decisions of the Japanese Government and although it was intended to make the official announcement tomorrow, the Minister said that he would now withhold the official announcement until Saturday morning May

[10] Handed to the Under Secretary of State by the Counselor of the British Embassy, May 15.

18 in order to afford the British Government and, in the event of a favorable decision, the American Government an opportunity for simultaneous announcement.

4. The British Embassy informs me that the announcement of the decision of the British Government will be made simultaneously with that of the Japanese Government.

5. I shall endeavor tomorrow to ascertain the precise hour of release in Tokyo and to cable the Department.

Repeated to Peiping.

GREW

124.93/289 : Telegram

The Secretary of State to the Consul at Nanking (Atcheson)

WASHINGTON, May 15, 1935—7 p. m.

36. For the Minister. Your 100, May 11, 1 p. m. Please call on the Minister for Foreign Affairs and, referring to the statement made to you by the Vice Minister that the Chinese Government would be pleased if the American Government should decide to raise its Legation in China to the status of Embassy, inform the Minister for Foreign Affairs orally as under instruction from your Government that the President has approved raising the American Legation in China to the status of Embassy; and that, although action by the Senate in the way of confirming the President's nominee as ambassador to China and action by the Congress making appropriation for the salary of an American ambassador instead of a minister to China are necessary before the change in the character of American diplomatic representation to China can be completed, the Department expects to announce the Administration's intent in this matter within a few days.[11] Please request that, pending announcement by the Department, this information be treated as confidential. You may add that the American Government would be pleased to have the Chinese Government raise its Legation in Washington to the status of Embassy, such action to become effective when action by the American Senate and Congress as indicated above have been completed.

The Department will telegraph you the date and hour when announcement will be made here.[11a]

HULL

---

[11] Telegram No. 81, May 15, 7 p. m., to the Ambassador in Japan indicated the Administration's intent to announce the proposed change simultaneously with the Japanese announcement on Saturday, May 18 (124.93/285).

[11a] Telegram No. 38, May 16, 6 p. m., to the Minister in China contained the information that the Department's announcement would occur Friday, May 17, 2 a. m., e. s. t. (124.93/289). According to a despatch of May 18 from the Minister in China, synchronization of press releases in Washington, Tokyo, and Nanking was not wholly achieved despite efforts of the Governments concerned to effect simultaneous announcement (124.93/311).

701.4193/57

The Department of State to the British Embassy

AIDE-MÉMOIRE

Having taken note of the statement contained in the British Embassy's *aide-mémoire* of May 14, 1935, that, in view of the decision of the Japanese Government to raise the status of the Japanese Legation in China and of the fact that the Governments of the Soviet Union and of Italy already maintain embassies in China, the British Government does not feel able further to delay similar action, the Secretary of State informs the British Government that the President has approved the taking of steps directed toward raising the American Legation in China to the status of embassy. It is expected that the Department will make an announcement of the Administration's intent in this regard within a few days and it is requested that, pending such announcement, this information be treated as confidential.

WASHINGTON, May 16, 1935.

124.93/303 : Telegram

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

NANKING, May 22, 1935—4 p. m.
[Received May 22—10:07 a. m.]

115. Vice Minister for Foreign Affairs today inquired whether I knew the procedure which Department of State intends to follow in bringing about change in status of Legation set forth in Department's telegram No. 36 of May 15, 7 p. m. He asked specifically whether the Department would ask for *agrément* of new appointee before nomination was made. I stated that I would inquire. Can the Department give me necessary information as to procedure and probable time when plan will be presented? I expect unless otherwise instructed to leave Nanking for Peiping via Shanghai on the night of June 3.

JOHNSON

701.9493/95

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

NANKING, May 22, 1935.
[Received June 15.]

SIR: I have the honor to comment on the motives of the Japanese in elevating at this time their Legation in China to an Embassy.

There would seem to be two probable primary motives for this act, neither of them being concerned with the question whether China is

approaching a degree in national development which would make Japanese representation by an ambassador more fitting than representation by a minister. In fact, I have heard more than one Japanese diplomatic representative speak recently most deprecatingly of the security of the National Government.

(1) Mr. Ariyoshi held the rank of ambassador in his own Foreign Office rating while serving as Minister to China. According to Japanese sources, if he had continued at his post in China as Minister after June 30 of this year, he would have lost his ambassadorial rating as his name would by then have been on the list of ambassadors waiting for assignment to embassies for three years, the limit of time which a name may remain on that list. This fact very probably influenced the Japanese Foreign Minister in his decision to raise the Legation to an embassy prior to June 30. If Mr. Ariyoshi had continued as Minister to China his prestige would have suffered through the loss of ambassadorial rating, while at the same time he might have been unwilling to serve longer in China as a minister. His transfer to another country where he could retain his ambassadorial rank would probably not be acceptable to the Japanese Foreign Minister as Mr. Ariyoshi has been working with some success for an improvement in Sino-Japanese relations by diplomatic means and his departure would perhaps delay the growing *rapprochement* between Japan and China, a development in which the Japanese Foreign Minister is deeply concerned.

(2) It is also understood that Mr. Ariyoshi, during his present visit to Tokyo, urged upon the authorities there the desirability of raising the Legation to an Embassy for the purpose of improving Chinese feeling toward Japan, his point of view being that the general atmosphere of the relations of the two countries must be improved as a preliminary to more concrete developments. According to Japanese informants, certain sections of the Japanese military were opposed to taking the step for such a purpose, advocating that the act should take place only as a *quid pro quo* for some desired concession from the Chinese.

There is a third possible motive for the step, namely, to strengthen Japan's diplomats in China vis-à-vis Japan's military. There is a report, which I have not yet verified, that the conference of Japanese diplomatic and consular officers held at Shanghai from April 8 to 10 was held two months earlier than originally scheduled. The purpose of the conference was to discover the effects of recent diplomatic measures to improve Sino-Japanese relations; the Japanese military were sending to Japan pessimistic reports in this regard; by holding the conference earlier than intended, the Japanese diplomatic representatives were able to counteract those pessimistic reports with the

more optimistic findings of their conference. In a similar way, the raising of the Legation to an Embassy has tended to improve the reputation of the Japanese diplomats working in China by showing a concrete step in the peaceful *rapprochement* which is in process of development. Particularly it may be presumed that their reputation will be enhanced by the success of Japanese diplomacy in persuading the United States and Great Britain to elevate their legations to embassies, and, to this extent, may strengthen them vis-à-vis the more pragmatic military.

I should add that there is a report current that Mr. Ariyoshi may resign from his new post as ambassador within a short time after his return to China next month (June) for reasons which are as yet obscure.

Respectfully yours, For the Minister:
GEORGE ATCHESON, JR.
Second Secretary of Legation

701.4193/59 : Telegram

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

PEIPING, May 28, 1935—noon.
[Received May 28—6:43 a. m.]

221. The British Minister, Sir Alexander Cadogan, has received word that his credentials as Ambassador are being forwarded to him via Siberia. His present plans contemplate trip to Chungkiang [*Chungking?*] thence to Nanking arriving there latter part of June at which time he will present his credentials. Pending formal presentation of credentials the status of mission here will remain a legation.

For the Minister:
LOCKHART

125.643/100 : Telegram

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

WASHINGTON, May 29, 1935—8 p. m.

145. The Department is giving consideration to the question of abolishing the consular office at Nanking, incorporating the Nanking consular district in the Shanghai consular district, and retaining at Nanking a branch office of the Legation at which one secretary would be assigned concurrently to Shanghai as a consular officer to perform certain consular duties in Nanking. Such arrangement would be substantially similar to that now obtaining at Peiping where an officer of the Legation staff is commissioned also as vice consul at Tientsin.

As Atcheson is familiar with the Peiping-Tientsin arrangement, Department desires that you instruct him to investigate the practicability of such a move, giving particular attention to (1) whether undue hardships would thus be caused the American residents and firms in the Nanking consular district; (2) whether American interests could still be adequately protected; (3) whether the American Government would suffer loss of prestige in the eyes of the Chinese; and (4) whether any material saving in personnel and general expenses would result. Atcheson should also submit estimate of cost of sending consular records and archives to Shanghai.

Department suggests that you also ask Shanghai to report in regard to the practicability of such an arrangement.

Upon receipt by you of Nanking's and Shanghai's views, please report the substance thereof to the Department by naval radio together with your own comments and recommendations.

HULL

701.9493/96

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

No. 1329 TOKYO, May 31, 1935.
[Received June 15.]

SIR: Although the Vice Minister for Foreign Affairs told me on May 9 that the publication of the Japanese decision to raise its Legation in China to the status of an Embassy would be delayed for a week or ten days in case the American Government should wish to take similar action simultaneously,* two days later Rengo published a statement to the effect that the Cabinet had definitely decided to take this step, that the decision would be "publicly announced" in a few days, and that informal notification had already been conveyed to the Ambassadors of the United States, Great Britain, France, Germany, and Italy in Tokyo. It is difficult to see how the facts, presented to me two days previously in such a confidential manner, could have been obtained and published by Rengo unless the Foreign Office had released them. Furthermore, according to an article in the *Japan Advertiser* of May 14, the Foreign Office spokesman stated at a press conference the day before that the Nanking Government had been informed of Japan's decision. In handling the matter in this way, the Japanese Government vitiated any intention that it may have had to let it appear that the United States Government and the other interested Governments, in the event of similar action, had reached their decisions simultaneously with the Japanese. Consequently, when the Governments of Japan, the United States and Great Britain announced

*Embassy's telegram No. 101, May 9, 1935. [Footnote in the original.]

on May 17 that they would raise their Missions in China to Embassy status, a widespread impression prevailed that the United States and Great Britain were merely following in the footsteps of Japan through force of circumstance.

Editorial comment on Japan's elevation of its Legation in China to the status of an Embassy was at first uniformly favorable though for the most part lacking in interest. However, several newspapers made observations that may be of interest in this connection. The *Yomiuri* stated that the exchange of Ambassadors between Japan and China would be made the occasion for a request by Japan for the recognition of "Manchukuo" by the Nanking Government and that Mr. Ariyoshi would present this request upon his return to China early in June. The *Hochi* of May 15 congratulated the Foreign Office authorities on their courage and determination in taking the step, added that Japan had more reason to station an Ambassador in China than in any other country in view of the close political, economic, and cultural ties between the two nations, and offered as an explanation for the delay in raising the Japanese Legation to an Embassy the fact that there had been "minor difficulties" between the two countries. The *Jiji* of May 13 stated that Japan had met China's desire, since the latter country had requested the elevation of the Japanese Legation many years ago; that in making this move Japan had acted independently of Great Britain, the United States, France, and other countries with extensive interests in China; that Japan's decision was of much greater significance than had been the sending of Ambassadors to China by the Soviet Union and Italy because of the peculiar geographical and political relationship between Japan and China; and that China would be highly gratified if Great Britain and the United States followed Japan's example. The *Asahi* of May 17 remarked that in the past Japan had put more stress on cultivating good relations with Western countries than with China, that this "old-fashioned policy" had been liquidated, that henceforth Japan would pursue an independent policy as distinguished from its former policy of subservience to Western countries, and that therefore there was nothing remarkable about the decision to exchange Ambassadors with China. The *Kokumin* of May 24 took a less optimistic view of the situation, stating that officials of the Ministry of Foreign Affairs flattered themselves with the belief that they had succeeded in leading Great Britain and the United States in matters relating to China; that they took this as an indication of possible diplomatic co-operation in the future between this country and the Western powers on Chinese questions; and that, contrary to the opinion held by Foreign Office authorities, Japan could never expect to lead the Powers in diplomatic dealings with China unless this country persuaded China to recognize "Manchukuo",

because the problem of "Manchukuo" would always be a stumbling-block in the solution of other issues pending between Japan and China.

While expressing satisfaction over the Embassy question, many newspapers continued to profess to be doubtful of China's sincerity.† According to press reports, the military not only remained skeptical of Chinese motives but also were displeased over Mr. Hirota's [12] resolution to elevate the Japanese Legation in China to an Embassy. On May 12 nearly all of the leading vernacular newspapers reported that military circles were disgruntled because the Foreign Office's action had been taken without prior consultation with the Army and because they considered the step premature and dangerous on the ground that China's alleged change of attitude toward Japan was open to suspicion. Most Army authorities maintained, according to these newspapers, that the Army could not be ignored in the matter of important undertakings affecting China and that if at the present stage the Foreign Office adopted too friendly an attitude toward the Chinese, the latter would all too likely cease their efforts to control the anti-Japanese movement in the belief that what had been done so far had satisfied Japan. The Minister for War [13] apparently raised no objection to the Foreign Office proposal when it was discussed at meetings of the Cabinet. However, in denying reports that the Army was opposed to the raising of the Legation to Embassy status, General Hayashi was said by Rengo to have indicated at a Cabinet meeting held on May 14 that some feeling had been aroused in Army circles by the failure of the Foreign Office to consult with the War Office before reaching its decision. According to the same news agency, General Hayashi subsequently stated to press correspondents that he had been given the impression by Mr. Hirota that the Embassy question had been discussed to some extent with the Army authorities; that apparently this had not been the case; that he had pointed out to Mr. Hirota that it would be well to be more careful about such matters; and that they had agreed to co-operate better in the future.

Judging from reports that appeared in yesterday's newspapers, it would seem that even in certain Foreign Office circles there is a feeling that the elevation of the Legation in China was somewhat premature. Rengo said that it was pointed out by "Foreign Office sources" yesterday that despite Japan's recent action regarding its Legation and other friendly gestures toward China, the Nanking Government had failed to eradicate certain anti-Japanese activities, such as the refusal by Shanghai newspapers to accept advertisements for Japanese goods, the encouragement of "recalcitrant Koreans" by

† Embassy's despatch No. 1289, May 10, 1935. [Footnote in the original; despatch printed on p. 163.]

[12] Koki Hirota, Japanese Minister for Foreign Affairs.

[13] General Senjuro Hayashi.

admitting them into the Military Academy, and the continued anti-Japanese agitation on the part of Chinese diplomats abroad, particularly at Geneva.

Certain recent developments have tended to alter the opinion of the press, which was at first well-disposed toward the raising of the status of the Japanese Legation in China. The Japanese Garrison at Tientsin is reported to have delivered certain demands to the Chinese authorities on May 29 in connection with the alleged provocative attitude taken by Chinese troops stationed in the Sino-"Manchukuo" border district and also in connection with the recent murder in Tientsin of two allegedly pro-Japanese newspaper publishers of Chinese citizenship.[14] It is not yet evident whether the Chinese will comply with these demands to the satisfaction of the Japanese military, nor what action the latter will take in any event. There are rumors that the Japanese Army is contemplating a vigorous course of action in North China if their demands are not met to their liking. Thus, as is usually the case, an atmosphere of uncertainty prevails pending possible drastic moves on the part of the military and public opinion as to the wisdom of the decision announced by the Japanese Government on May 17 may be said to be in a state of flux.

Respectfully yours, JOSEPH C. GREW

123J634/343 : Telegram

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

WASHINGTON, June 6, 1935—8 p. m.

151. Your 115, May 22, 4 p. m. The President desires to appoint you as Ambassador to China. Request *agrément* of Chinese Government and telegraph reply as early as possible.

HULL

123J634/345 : Telegram

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

NANKING, June 9, 1935—5 p. m.
[Received June 9—6:45 a. m.]

145. Having approached Foreign Office with view to obtaining *agrément* of Chinese Government to appointment of Minister Johnson as Ambassador to China, Director of the Department of International Affairs of Foreign Office informs me that his Government will receive Mr. Johnson as Ambassador with great pleasure.

Repeated to Peiping.

For the Minister:
ATCHESON

---

[14] For further information, see pp. 179, 190 *passim*.

125.643/101 : Telegram

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

PEIPING, June 13, 1935—9 a. m.
[Received 10:27 a. m.]

267. Department's 145, May 29, 8 p. m. Atcheson's views on the matter, which have my full concurrence, are as follows:

1. Proposal is practicable; no undue hardships would be caused the service or American firms and residents; protection work could be handled as efficaciously as before; Chinese would view the change as evidence of increasing interest by the American Government in its Legation representation at Nanking; while the proposed abolition of the Consulate General might make it possible to reduce personnel that question cannot be well determined until it becomes apparent whether the present heavy telegraphic traffic continues or whether the Legation work will continue to increase; other than possible savings in personnel the material immediate savings would be in postage, stationery, printing and binding and local transportation.

2. The number of Americans in Nanking to be served by a Vice Consul detailed to the Legation office is less than half the number served by the consular officer in Peiping; many of the Americans in the interior are nearer Shanghai by mail; the greater part of the work is handled by mail and Shanghai is but 6 hours from Nanking by train and one hour and a half by air. In the past 6 months there have not been more than five occasions on which oral representations to municipal authorities were necessary; the Shanghai officer to be detailed to Nanking could make such representations. Only two American firms have branch offices in Nanking with American personnel.

3. The varied duties if distributed through a large office should not burden Shanghai particularly with a consular officer in Nanking. Because Nanking is commercially united to Shanghai trade inquiries have for some time been referred to Shanghai. As in Peiping the officer in Nanking should not have any jurisdiction in visa work but could undertake investigations for Shanghai.

4. Shipment to Shanghai of the consular archives and records for the years 1927 to 1931 would cost about 60 United States dollars. Legation correspondence has been bound with consular correspondence from 1931 to the end of 1934 and it should remain in Nanking for reference purposes, Shanghai to rely upon its officer in Nanking to continue the files.

5. Under present staff conditions the administration of the combined offices has been extremely difficult. There is too much Legation work requiring personal action or supervision by the officer in charge

to permit him without an excessive amount of overtime to give proper attention to the Consulate General and various office details. The emphasis which the change would place upon the Legation representation in Nanking would be advantageous; the Foreign Office has considered the Legation office as an appendage of the Consulate General and our representation in Nanking suffers in comparison with that of other countries.

Consul General Cunningham [15] reports that the proposal is practicable from the point of view of his office. He feels that the additional work involved could be handled by the staff of his office without additions other than those requested in his estimate for clerk hire submitted on January 15, 1935. He assumes, of course, that one of the officers at Nanking will be assigned concurrently to Shanghai as a consular officer to perform his duties in Nanking. He believes that the consular archives at Nanking should be transferred insofar as possible to Shanghai for reference purposes.

JOHNSON

701.9311/583 : Telegram

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

WASHINGTON, June 19, 1935—4 p. m.

178. For your information: On June 18 the Department, in reply to a note from Minister Sze stating that the Chinese Government proposed to promote him to be Ambassador to the United States, informed Minister Sze that this Government is agreeable to such appointment.[16]

Inform Nanking.

HULL

123J634/354 : Telegram

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

WASHINGTON, June 21, 1935—6 p.m.

181. Your nomination was confirmed by Senate June 14th and President has appointed you June 18th to be Ambassador Extraordinary and Plenipotentiary of the United States to China. Letter of credence being mailed to you care of Consulate General Nanking on steamer *President Grant* from Seattle June 22nd. Your status as Minister will continue until day you present credentials Nanking. On that day you will take oath as Ambassador. Salary at $17,500 per annum begins when letter of credence presented. Deficiency appropriation is being requested and it is expected this will be approved by time you

[15] Edwin S. Cunningham, Consul General at Shanghai.
[16] Notes not printed.

are ready to present credentials. If deficiency appropriation delayed for any reason, further instructions will be issued in due time. Your traveling expenses and usual per diem on trip to Nanking should be charged to item for travel in your district as already established in Legation's regular contingent expense allotment for coming fiscal year.

HULL

123J634/355 : Telegram

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

PEIPING, June 26, 1935—5 p. m.
[Received June 26—10:07 a. m.]

317. Department's 181, June 21, 6 p. m. I appreciate this evidence of the President's continued confidence. The information contained in the Department's telegram was conveyed orally to the Foreign Office by Lockhart [17] on the 25th and Lockhart was informed that President Lin Sen [18] who is ill has gone to Kuling for the summer and will not return to Nanking until September. Before he left he fixed September 14 as the date on which Doctor Trautmann, the newly appointed German Ambassador, would present his letter of credence, the presentation to take place at Nanking. The Foreign Office stated that it would be necessary to fix a date subsequent to September 14th for me to present my letters of credence at Nanking. I am instructing Nanking to hold letter of credence until appointed time.[19]

JOHNSON

125.643/101 : Telegram

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

WASHINGTON, July 3, 1935—9 p. m.

198. Department's 145, May 29, 8 p. m., and your 267, June 13, 9 a. m. The Department desires that you directly or through Atcheson inform your British colleague informally and as under instruction from the Department that the Department expects within the next few weeks to put into effect the arrangement at Nanking discussed in the telegrams under reference.[20] Please point out that this change at Nanking is being made with a view to facilitating the carrying on of the work of your mission by making it possible for the staff at Nanking to

[17] Frank P. Lockhart, Counselor of Legation in China.
[18] President of the Chinese National Government.
[19] The Minister in China informed the Department, in his telegram No. 347, July 10, 2 p. m., that President Lin Sen had designated September 17 as the date on which he would accept the Minister's letter of credence (123J634/357).
[20] The British Ambassador was so informed on July 5 (125.643/106). The Consulate General at Nanking was closed effective September 17; on the same date the Legation in China became an Embassy (125.643/110; 123J634/367).

center its attention upon diplomatic work. If you think it desirable you may explain that you expect to reside in Nanking a larger proportion of the time than hitherto and that with the intention of increasing the facilities at your disposal the Department is attempting to rent larger premises at Nanking.

You should request that this matter be considered as confidential for the time being.

HULL

124.93/318b

The Assistant Chief of the Division of Far Eastern Affairs (Hamilton) to the Counselor of Embassy in the United Kingdom (Atherton)

WASHINGTON, July 16, 1935.

DEAR RAY: This letter relates in general to the question of raising the legations in China to the status of embassy and in particular to a phase of that question which has a bearing upon the larger matter of cooperation between the American and the British Governments.

The enclosed statement [21] summarizes the Department's record of developments which resulted in the announcements that three legations in China (the American, British and Japanese) were to be raised to embassies. You will note from this record that the British Government merely notified us of its decision.

Frankly, we felt somewhat annoyed that the British failed to interchange views and discuss the matter with us prior to coming to a decision. There are of course a number of possible extenuating circumstances which occur to us. Normally, the Department would have addressed any inquiry to the British Government through the Embassy in London rather than through the British Embassy here. However, as the British Ambassador here had during the past few years been the channel of communication in regard to the matter, we wished to avoid creating any impression that we were going over the head of the Ambassador. Another extenuating circumstance may be the fact that the Ambassador happened to be away from Washington during the weekend when we took the matter up informally with the British Embassy. A further extenuating factor may be that, as the Japanese Government had indicated that it would postpone announcement of its decision for a period of only a week or ten days, the British Foreign Office may have considered that there was no time for consultation.

Although we were not under definite obligation to "consult," we would have preferred, in the light of the statement which we had

[21] Not printed.

made on October 6, 1934, to the British [22] that we would "expect first to confer with and/or give notice to the British Government . . .", to have had an exchange of views with the British Foreign Office prior to the arriving at of a decision.

I am writing at this length because this case serves to emphasize what seems to us to be a distinction between our conception of cooperation and that of the British Foreign Office. Cooperation calls, as we envisage it, for prior consultation and frank exchange of views. The British concept seems as a rule to envisage (*a*) a certain amount of discussion; and (*b*) simply the giving of notice by them when they have decided to act along certain lines that they have so decided, with acceptance and action thereafter in accordance by us. In the case under reference, they did not at all follow the procedure designated (*a*). Moreover, it seems to us that when procedure (*a*), having been followed, does not result in an accord as to what action, if any, seems desirable, there should be, between (*a*) and (*b*), an intermediate step consisting of one party telling the other that it is inclined toward the taking of certain action but will—prior to proceeding on that line of action—give the other party an opportunity to comment or to decide in regard thereto. We realize, of course, that in the case immediately under discussion there was not time for all of this; but in various other cases there has been or would have been time.

As indicated in the last paragraph of Mr. Hornbeck's [23] letter of February 19, 1935,[24] we desire sincerely that whenever and wherever practicable and appropriate, there may be cooperation between us and the British. With the thought of facilitating such cooperation, I wonder whether you would think it advisable at some opportune time informally to discuss the matter in your own tactful way with the appropriate official of the Foreign Office. Proceeding on the assumption that both the British Foreign Office and the Department sincerely desire to cooperate whenever practicable and appropriate, it seems to us that if and when there develops a situation wherein it is felt on either side that there has not been cooperation to the fullest extent, the thing to do is to talk the matter over frankly and informally. For we realize that what may appear to us as a perfectly logical deduction on the basis of the facts and circumstances known here may not be a logical deduction in the light of the facts and circumstances as presented at the London end.

With all best wishes, I am

Yours sincerely, MAXWELL M. HAMILTON

[22] Not printed, but see telegram No. 174, October 9, 1934, 6 p. m., to the Chargé in Japan, *Foreign Relations*, 1934, vol. III, p. 541.

[23] Stanley K. Hornbeck, Chief of the Division of Far Eastern Affairs.

[24] *Ante*, p. 59.

123J634/359 : Telegram

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

WASHINGTON, August 20, 1935—5 p. m.

254. The appointed Chinese Ambassador is to present his letters of credence to the President on August 21.

Due to the fact that the President expects to leave Washington in the near future and the date of his return is uncertain, it has seemed impracticable to endeavor to arrange that the Chinese Ambassador present his letters of credence on approximately the date set for you to present your letters of credence.

HULL

PROBLEM OF CHINA'S ECONOMIC RECONSTRUCTION AND THE ATTITUDE OF THE UNITED STATES AND OTHER GOVERNMENTS RESPECTING FINANCIAL ASSISTANCE TO CHINA[25]

893.515/389

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

[WASHINGTON,] January 5, 1935.

The Chinese Minister[26] called and informed me that he had been informed by his Government that Mr. T. V. Soong[27] will be sent to represent China in conversations with regard to silver. Mr. Soong would leave Shanghai on January 18 and arrive at Vancouver on February 2.[28] The Minister had already informed the Secretary of the Treasury.

The Minister also stated that there had been discussion between him and the Secretary of the Treasury, on Mr. Morgenthau's initiative, with regard to the possibility that ten million ounces of silver which the American Government is to purchase for the Cuban Government be purchased from China.

---

[25] For previous correspondence, see *Foreign Relations*, 1934, vol. III, pp. 371 ff.

[26] Dr. Sao-ke Alfred Sze.

[27] Executive member, National Economic Council of China.

[28] Mr. Soong's proposed trip was canceled; see telegram No. 12, January 25, 5 p. m., from the Counselor of Legation in China, p. 18.

693.1117 American Chinese Trade Commission/4 : Telegram

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

WASHINGTON, January 8, 1935—6 p. m.

5. Your No. 9, January 5, noon.[29] According to information furnished the Department, the American Chinese Trade Council, New York, proposes to send to China during the spring of 1935 an unofficial American economic mission for the purpose of studying the possibility of increasing Sino-American trade and the problems therein involved. The Department will inform the Legation and consular officers in China in regard to the personnel and plans of the mission as soon as this information is available.

Advise Legation and Nanking by mail.

HULL

893.515/387

Memorandum by the Secretary of State

[WASHINGTON,] January 10, 1935.

The Minister of China came in upon my invitation. I proceeded to inform him with respect to the exchanges of views and suggestions carried on heretofore between him and both the State Department and the Treasury concerning the silver situation and problem as it affected China and the United States in particular. I stated that the attitude of this Government was as heretofore stated to the Minister by the Secretary of the Treasury—that this Government had no plan to offer; that if the Government of China had any plan to offer relative to the silver problem, this Government would be ready and glad to consider the same with the Government of China by cable. This was the entire substance and purport of my statement to the Minister of China. He offered very little comment.

C[ORDELL] H[ULL]

693.1117 American Chinese Trade Commission/11 : Telegram

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

WASHINGTON, January 17, 1935—2 p. m.

13. Your No. 9, January 5, noon,[29] and Department's No. 5, January 8, 6 p. m. According to the most recent information furnished the Department, the National Foreign Trade Council, New York, in

[29] Not printed.

cooperation with the American-Chinese Trade Council and the Chinese-American Trade Council, has now decided to sponsor an economic mission to China which will also visit Japan and the Philippines (forming in effect separate sections in each country) for the purpose of discussing mutual problems affecting trade. The mission will comprise members selected from industrial corporations having large interests in those countries with a number of experts in economics, transportation and finance, and also several prominent men who are not now identified actively with any American corporation but who have had associations with those countries in the past.

The mission is scheduled to leave March 22 from San Francisco on the *President Coolidge*, to remain 2 weeks in Japan, and then to proceed to Shanghai on the *President Harrison*. Its itinerary in China will include visits to the principal cities which will require about 6 weeks.

For the present it is believed that Foreign Service officers should refrain from undertaking to explain the mission and should refer inquirers to the National Foreign Trade Council. Such officers may in their discretion inform inquirers that the mission will be strictly unofficial and that the Foreign Trade Council will presumably make its own announcement when its plans are matured and it deems the time opportune.

Advise Legation and Nanking.

HULL

893.515/397

The Chinese Minister of Finance (Kung) to the Chinese Legation [31]

An understanding with the United States concerning the silver purchase program is prerequisite to a decision regarding dealings with the monetary situation. The following proposal is made with the immediate objective of avoiding collapse and limiting deflation here.

As long as exchange is below the foreign silver parity unrestricted open market purchase invites illegal export. Any attempt to raise exchange to parity would involve further deflation and aggravate adverse balance of payment. Therefore it is proposed that the United States limit the silver purchase price pending further negotiation and adopt measures to avoid purchasing silver hereafter illegally exported from China. It is suggested that the United States buy only silver (1) newly mined (2) sold pursuant to the London Agreement [32]

[31] Telegram received at the Chinese Legation on January 19; copy handed to the Chief of the Division of Far Eastern Affairs by the Chinese Minister, January 21.

[32] Memorandum of Agreement on Silver Between the United States and Certain Other Powers, signed at London, July 22, 24, and 26, 1933, *Foreign Relations*, 1933, vol. I, p. 763.

(3) to be delivered at New York or London within a brief period, say 2 weeks, thereby limiting the increase of such stock from illegal exports from China and thereafter buy only silver which the American Government is satisfied has not been smuggled in from China. Such measures are analogous to the American treaties against evasions of the prohibition law.

In the belief that accord can be reached to safeguard against further deterioration of China's situation, we are prepared to transmit shortly an outline of further measures.

China greatly appreciates the careful consideration that is being given to this situation by the American Government.

893.515/397

The Department of State to the Chinese Legation [33]

The Silver Purchase Act [34] is mandatory. The American Government cannot make an agreement whether informal or formal in impairment of its provisions. In administering it, this Government endeavors to avoid unnecessarily occasioning hardship to any country or interest. Our present purchasing procedure is believed to take into account the ideas comprised in the suggestions offered in the Chinese Government's communication under reference. We will expect, immediately upon receipt of the "Outline of Further Measures", to give the contents of the outline careful consideration.

WASHINGTON, January 26, 1935.

893.515/398a

The Department of State to the Chinese Legation [35]

Up to the present time the American Government, although it has made informally suggestions toward that end, has not received from the Chinese Government data indicating in any detail and with any particular exactness the character and the extent of the adverse effects which the silver purchasing program of the United States is said to be causing in China.

WASHINGTON, January 26, 1935.

---

[33] Informal message handed to the Chinese Minister, January 26, by the Chief of the Division of Far Eastern Affairs.

[34] Approved June 19, 1934; 48 Stat. 1178.

[35] Handed to the Chinese Minister by the Chief of the Division of Far Eastern Affairs, January 26.

893.515/400

Memorandum by the Chinese Minister of Finance (Kung) [36]

[NANKING,] January 30, 1935.

The Chinese Government had thought the situation here was made clear but in view of the inquiry of January 26 desires to summarize, supplement, and bring up to date the data furnished heretofore.

The Chinese Government was greatly disturbed for the past year over the effects of the American Silver Program on the Chinese economic and financial situation. On February 16 in connection with the ratification of the London Silver Agreement for Stabilizing Silver the Chinese Government through the American Consulate General at Shanghai informally communicated the following views:

"China entirely sympathizes with the purpose of the London silver agreement on the stabilization of silver prices and Minister Kung has personally urged ratification which is now pending. Since China's currency is silver, China is of course vitally interested in measures affecting its value and international exchange but of course has no desire to intrude upon questions of purely American internal concern. In view of reports here, it may be observed that any action resulting in a rise of China's currency out of relation to other currencies and especially out of relation to world commodities would have deflationary effects in China, further decrease her already reduced exports and so impair her ability to purchase goods from abroad. It would also probably increase the present serious tendency towards heavy silver exports as necessary means of settling large adverse balance. In view therefore of China's vital interest, it is hoped that the Government of China will be consulted in advance if measures concerning silver that might materially affect China's currency and exchange are in fact being contemplated."

Again immediately after the American nationalization of silver in August the Chinese Government made the following further communication:

"The London Silver Agreement of July 1933 received the signature of China's representatives and has more recently been ratified by the National Government of the Republic of China with the understanding that its major purpose was to secure the stability of the price of silver which was thought menaced by the large surplus stocks held by the Governments of India and Spain. The preamble of the agreement states in part that 'it is to the advantage of China that sales from monetary stocks of silver be offset by purchases as herein provided, with a view to its effective stabilization'.

"It now appears that under the Silver Purchase Act of 1934 the stability of the price of silver and the interests of China are as much menaced as by the previous situation of potential sellers. China would therefore appreciate an indication of the probable policy of America

[36] Copy transmitted to the Department by the Chinese Minister under covering letter of February 1.

in the future purchase of silver in order that China may properly safeguard her currency, which has recently been flowing out of the country to a degree that is potentially alarming".

These views were substantiated by results as detailed in a memorandum communicated to the American Minister on October 5.[37] Moreover full information furnished Professor Rogers[38] here and subsequently concurrently furnished the American Treasury representative, the Commercial Attaché and the Consulate in Shanghai is presumably available both to the State and the Treasury Department. Nevertheless the following further statement is submitted:

1. Net silver export in 1934 not including smuggling was 257 million dollars of which five sixths in less than four months from the adoption of the Silver Purchase Act to October 15 when China was obliged to enforce restriction to protect the currency reserve from this extraordinary drain. In 1934, the silver export was five times the previous high record in 1907.

2. The Shanghai silver stock declined from 544 million dollars at the end of June 1934 to 312 million dollars now. Also the stock of other leading centers declined proportionately.

3. Till July last money was easy and financing plentiful but accompanying the silver drain money became extraordinarily tight. Since the first half of 1934 interest rose from the equivalent of six percent per annum charged by native banks to customers to 26 percent about January 1. Since arranging the financing of new year settlement lower rates have been nominally quoted at the instance of the Government but this does not represent real improvement since it is practically impossible to borrow at any rate regardless of security. As a consequence tightness of money led to the sale of foreign exchange for cash at a premium over forward delivery worked out to be 27.4 percent per annum yesterday for one month loan.

4. Notwithstanding the tendency to world wide recovery deterioration of China's situation increased alarmingly the last six months and the condition now is at the lowest point since depression began. The total foreign trade for the second half of 1934 is thirteen percent below the first half and sixteen percent below the second half of 1933. Although the adverse merchandise balance has declined the drain of both gold and silver the last three years makes the situation here precarious unless the conditions causing the adverse balance of payment are counteracted. Since July last Government and industrial bonds declined by ten percent; property of the Center District of Shanghai declined about fifteen percent; industrial stocks declined seven percent. There are widespread business failures in all regions including numerous important industrial and mercantile establishments. Recently Government-supporting banks and enterprises through the Central Bank of China, Bank of China and Bank of Communications try to prevent further increase of unemployment and

[37] See telegram No. 462, October 11, 1934, noon, from the Counselor of Legation in China, *Foreign Relations*, 1934, vol. III, p. 446.

[38] Dr. James Harvey Rogers, professor of political economy at Yale University; special representative of the Treasury Department in China, Japan, and India in 1934.

wholesale collapse. New year settlement is only about fifty percent of the normal as banks fear pressure would precipitate numerous bankruptcies which at this time would cause general collapse. As a consequence notwithstanding their own difficulties banks feel obliged to grant loan extensions even to practically insolvent concerns. In order to ease money and sustain confidence during new year settlement the Government is obliged to bring back silver from Hongkong at 19 percent loss in the small driblets which the financial situation permits but the present impaired credit structure and the inordinate interest rate due to the silver drain are destroying trade.

5. Tight money gravely impairing Government finance is making practically impossible further financing by banks. The reserve [*revenue*] [39] particularly that of the customs is seriously threatened by the present tendency. Reconstruction activities are checked; for example the loan for the important project of bridging connecting railways near Hangchow and extending the railway to Ningpo cannot be floated though already contracted for.

6. All evidences confirmed the rising of currency value which [*evidence confirms that rising currency value*] [39] has proved disastrous to China because involving parallel deflation. For detailed discussion supported by statistics see a recent report of the Ministry of Industries Commission of which Professor Buck [40] has preliminary copy which however contains figures only to early 1934. Since then the conditions have become greatly aggravated.

893.515/500

Mr. T. V. Soong, of the Chinese National Economic Council, to the American Ambassador in the Soviet Union (Bullitt), Temporarily in Washington [41]

SHANGHAI, January 31, 1935.

Am taking a hand in currency and financial problems because of the extreme gravity situation. Considered opinion myself is that inevitably economic and especially currency situation heading towards crisis, possibly in March, probably in April certainly before June. When it comes banking system will be smashed, country forced to irredeemable paper money and government finances entirely disrupted, with disastrous effect on Central Government authority.

In other countries and under other circumstances currency collapse while unfortunate need not be so disastrous, but with country not yet well organized and with Japan now pressing for show down (which fact must be well known to you) in order to dominate China, Government would then have to choose between accepting a Japanese loan under onerous political and economic conditions or facing the

[39] Correction made on basis of the Chinese Minister's note of April 8; not printed (893.515/519).

[40] Dr. J. Lossing Buck, professor at the University of Nanking.

[41] Copies were given by Mr. Bullitt to President Roosevelt and to the Chief of the Division of Far Eastern Affairs.

emergence of provincial governments with different currencies virtually under Japanese protection. Had I not seen this eventuality I confess I would view approaching crisis with comparative calm.

In view of the impending danger to China and world, hopeful that proposal (which is being transmitted by Minister Sze) for an American loan to enable China to firstly link her currency with U. S. dollar and avert coming crisis, secondly spare a part of her silver stocks for American requirements, will be viewed with great sympathy as far more is involved than the fate of the present Chinese Government or even her economic well being.

893.515/401

The Chinese Minister (Sze) to the Secretary of State

The Chinese Minister presents his compliments to the Secretary of State and has the honor to transmit the following text of a cablegram which has been received from Dr. H. H. Kung, Minister of Finance at Nanking:

China greatly appreciates the American Government's consideration for China's difficulty in connection with the execution of the silver purchase program. However the Chinese Government feels that under existing conditions the present or higher price in an open silver market inevitably involves the loss of an essential part of China's monetary reserve through legal and/or illegal exportation with resulting monetary chaos and social and political complications international in scope. China however cannot raise the exchange to the foreign silver parity and at the same time prevent disastrous deflation and conserve the silver reserve on the present basis. Lack of confidence in and present doubt about China's currency resulting from uncertainty about the silver price and about the extent of the drain on China's silver under the influence of American buying are ruinous to foreign and internal trade and seriously impair the Government's revenue when the Government is making strenuous efforts to stamp out the communist threat in a western province and consolidate its position throughout the nation. China has therefore considered how it might adjust its monetary and financial policy and program to the American policy and program and harmonize the interests of both countries and has decided it has no choice but to seek feasible means to abandon the exclusive silver basis maintained by it alone and adopt a new currency system by using both silver and gold with a view to linking its currency to that of the United States and to freeing its exchange from uncertainty attached to the silver basis under present conditions.

American cooperation is essential to that end if China is to escape from the present impossible situation and pass safely through the trying transition to a new monetary system without a period possibly prolonged of inconvertible paper money accompanied with grave risks to internal if not external stability. The Chinese Government

hopes the American Government will be able to act along the line indicated by the memorandum of January 21 [41a] pending an arrangement whereby China would supply the American silver requirement in an endeavor to assist the American Government and would obtain American support in currency reorganization. To this end China outlines the following plan:

Section 1. Under existing circumstances China would prefer to supply the requirement under the Silver Purchase Act provided the extent thereof, the period of years for their fulfilment, and the sale price of silver supplied are mutually agreeable. Given time and facilities to get together sufficient silver in the hand of the Government China could provide for the entire requirement out of the country's holdings. It is suggested that in the first year China sell 200 million fine ounces with tolerance to China of fifty million fine. Subsequent delivery is to be arranged as soon as the American Government indicates its requirement. The price is to be determined either on a gradually rising scale or at a flat valuation above the present price depending on how rapidly and to what valuation the American Government desires the silver price to be raised.

Section 2. In changing the currency of the entire country in a brief time from silver to a currency linked with the United States of America dollar China would require immediate resources so as to establish confidence during the transition and provide a sound basis for the new currency which would require protection against temporary adverse balance of payment consequent upon China's silver exchange being out of line with the level of the world's commodities and leading foreign currencies. Such resources further would tend to assist in repairing the serious damage to China's economy resulting from the loss last year of 260 million silver dollars vital reserve plus the amount smuggled and consequent extreme tightness of the financial market.

Currency experts estimate that the minimum resources required would be a loan or long term fund amounting to United States of America dollars 100 million. In addition to this a credit of like amount against future delivery of silver to be drawn upon if and when required is desired so as to ensure beyond question the soundness of this currency reform. It is hoped that this credit would not be drawn upon at all because the reform based upon American cooperation and a settlement of the silver difficulty would itself command general confidence.

Section 3. It is understood that the above proposal is conditioned upon a final agreement on a feasible currency program. The Chinese Government earnestly hopes that the foregoing will receive favorable consideration with a view to promoting a solution of the silver difficulty and encouraging trade development.

WASHINGTON, February 5, 1935.

[41a] *Ante*, p. 528.

893.515/402

The Chinese Minister (Sze) to the Secretary of State

The Chinese Minister in presenting the accompanying memorandum from Dr. H. H. Kung, Minister of Finance at Nanking,[42] desires to make the following observation:

By making all purchases from China desired quantities could be obtained more expeditiously and advantageously and with less inducement to speculation than by buying from many sources and the Chinese Government can thus obtain necessary supplies without the risk of smuggling to take advantage of a higher price abroad. American buying at London or other open markets at a price above the value in China necessarily invites smuggling. For these reasons the assurance of American purchases made in China only from the Central Bank of China is no great assistance against smuggling. Moreover an exclusive arrangement would facilitate the government in obtaining desired quantities from the Chinese public.

WASHINGTON, February 5, 1935.

893.515/426

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

[WASHINGTON,] February 14, 1935.

Conversation: Mr. Morgenthau, Secretary of the Treasury;
Mr. Coolidge, Under Secretary of the Treasury;
Mr. Oliphant, General Counsel of the Treasury;
Professor J. L. Buck;
Mr. Hornbeck;
Mr. Mackay.[43]

(Note: This conversation was held in the office of the Secretary of the Treasury, at that Secretary's request.)

Mr. Hornbeck stated that the Under Secretary of State was on his way to this meeting but that he had been called to the White House and would be delayed.

Mr. Morgenthau asked what the Department of State had to propose. Mr. Hornbeck said that so far as he knew the subject to be discussed had not been specified to us, but that we supposed that it was the matter of the Chinese Legation's notes of February 5; we would like to hear what the Treasury thought. Mr. Morgenthau said that the Treasury had some views but that they had been brushed aside; he would like to hear the views of the Department of State.

[42] See *supra*.
[43] Raymond C. Mackay, of the Division of Far Eastern Affairs.

Mr. Hornbeck, then, after giving a brief account of the projects put forward and the action taken during the past four decades with regard to currency reform in China and the association of the United States Government therewith, made known the views of the Department of State with regard to the outline of a plan submitted by the Chinese Government in the notes of February 5. Mr. Hornbeck then read aloud the text of a proposed reply [44] to the Chinese Minister's two notes of February 5, 1935, which notes conveyed to the Department the aforementioned plan of the Chinese Government.

Mr. Hornbeck added that there was one question that might well be asked: Could the American Government participate in such a cooperative action for making a loan to China—without resort to Congress. Mr. Morgenthau indicated that Mr. Oliphant would look into that question.

Mr. Morgenthau, in substance, replied that he thought this would "get us nowhere"; that, in his opinion, the matter should not be dealt with by joint international action; that it is "a purely monetary matter" and should be handled "aggressively" by the Treasury Department; that we should invite Mr. T. V. Soong to come to the United States to discuss (with Morgenthau) the situation; but that the Department of State holds views to the contrary, in consequence of which he (Mr. Morgenthau) would inform that Department of his approval of the proposed reply to the Chinese Government and that in so doing he would, as in a previous instance, also state his belief that the suggestions thus made "would not get us anywhere".

In reply to a question, Mr. Hornbeck stated that, in addition to monetary considerations, there are inherent in the problem very definite political factors which should not be overlooked and that, in his opinion, Japan would oppose by various means any attempts by the United States, or by any other country, to effect, individually and without Japanese participation, substantial loans to China or a rehabilitation of that country.

Following a brief discussion in regard to the possible sources of a possible international loan to China, in the course of which Mr. Hornbeck stated his opinion that, in this instance, funds for such a loan would have to be provided by the interested governments rather than by the China Consortium,[45] Mr. Morgenthau stated his opinion that "we ought to go it alone"; that he could handle the matter—as he had—successfully—handled several other similar matters; but that, as the Treasury and State Departments are "at opposite poles" on the

[44] See p. 539.

[45] For text of the China Consortium Agreement of October 15, 1920, see *Foreign Relations*, 1920, vol. I, p. 576.

question of procedure, there seemed little use in discussing the matter further.

Mr. Hornbeck left with Mr. Morgenthau and with Mr. Coolidge, for further consideration, copies of the proposed reply to the Chinese Minister's notes of February 5.

S[TANLEY] K. H[ORNBECK]

893.515/424 : Telegram

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

SHANGHAI, February 18, 1935—5 p. m.
[Received February 18—10:15 a. m.]

70. 1. Inaugurating on February 15th at Shanghai the Monetary Advisory Committee formally appointed on February 2nd, Minister of Finance Kung stated *inter alia*: "The formation of this Committee is a recognition of the need to pool our knowledge and work together in developing the country's economic strength and in handling the present admittedly difficult situation" and "while the measures we adopt must be determined chiefly by our domestic needs, we cannot ignore the fact that decisions and actions in the field of international trade and finance inevitably produce reactions in our own country" stating that Government leaders had publicly stated they placed no reliance on cheap remedies and that "we have no wish to adopt extreme measures." Kung mentioned necessity for improvement of note issue system and financing internal trade and discounting trade bills and adoption of means for rectifying large adverse foreign trade balance.

2. The Monetary Advisory Committee is composed of 20 prominent bankers and Kung as Chairman. The terms of reference are: "To consider and make recommendations to the National Government for the, (1) improvement of the present currency situation, (2) stabilization of the exchange market, (3) improvement of China's balance of international payments, (4) improvements in the conditions and machinery for the finance and trade and industry in the interior, (5) any other matters submitted to the Committee by the Ministry of Finance."

3. The Committee approved a recommendation to the Ministry of Finance that future imports of silver into China be exempted from present export duty and equalization charge on reexport from China.

CUNNINGHAM

693.1117 American Chinese Trade Commission/17

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

[WASHINGTON,] February 19, 1935.

On Saturday, February 16, Mr. Hornbeck telephoned Mr. Chevalier, Secretary of the American Asiatic Association, New York, and was informed by Mr. Chevalier, in response to inquiry, that the American Economic Mission to China would include among its personnel a representative of the Export-Import Bank. When Mr. Chevalier asked Mr. Hornbeck what Mr. Hornbeck thought of the inclusion of such a representative, Mr. Hornbeck said that he was not at the moment expressing any opinion but was merely endeavoring to ascertain the facts. Mr. Hornbeck suggested that in any publicity given in regard to the Economic Mission to China, there be featured the fact that the Mission is one sponsored and organized by private American business and commercial interests.

An American economic mission to China (which will visit also other countries and areas in the Far East) will naturally arouse speculation and conjecture. In Japan, American economic activity in China has long been viewed and is especially today viewed as having a political character. Whether the Japanese view accords with the facts is not so important as is the desirability of this Government avoiding action which would unnecessarily reenforce the Japanese in their point of view. From the point of view of American relations with the countries of the Far East it is desirable that people's attention be turned to some extent at least from political factors toward purely economic and commercial factors.

In the light of the above, it is believed that the inclusion in the personnel of the American Economic Mission to China of any officers of the American Government would be unfortunate. Such inclusion would make it practically impossible for the American Government or its representatives in the Far East to convince anyone that the Mission is not sponsored by the Government and that the Mission does not have a political as well as an economic character. Any ill-advised statements made by members of the Mission or any conclusion reached by the Mission with which the American Government might not be in accord would be more embarrassing to the American Government than would be the case if the Mission did not have among its personnel an officer or officers of the American Government.

It is therefore suggested that steps be taken toward causing the Export-Import Bank to withdraw its representative from the personnel of the Economic Mission. In case the Export-Import Bank believes it advisable to send a representative to China, it is believed that

such representative should proceed independently of and be not connected with the American Economic Mission.

893.515/402

Draft Note From the Secretary of State to the Chinese Minister (Sze)

[WASHINGTON,] February 19, 1935.

The Secretary of State presents his compliments to the Chinese Minister and has the honor to acknowledge receipt of the Minister's two notes of February 5, in one of which the Minister transmits the text of a cablegram from Dr. H. H. Kung, Minister of Finance at Nanking, containing the outline of a plan with regard to silver, and in the other of which the Minister makes certain observations.

In the outline of a plan, the Chinese Minister of Finance suggests that arrangement might be made whereby China would supply the American Government's requirements under the Silver Purchase Act, the amount, the period of years for effecting delivery, and the sale price of silver to be agreed upon between the United States and China; and that, in view of what China deems the necessity for abandoning the exclusive silver basis maintained by China alone and adopting a new currency system involving use of both silver and gold with a view to linking China's currency to that of the United States, the United States (*a*) loan China one hundred million United States dollars and (*b*) extend to China a credit of one hundred million United States dollars "against future delivery of silver to be drawn upon if and when required"; the above project to be "conditioned upon a final agreement on a feasible currency program."

In reply, the American Government, taking into consideration the history of projects which have been formulated and proposals which have been made and possible arrangements which have been discussed and tentative agreements which have been entered into, at intervals during the past four decades; and, giving thought to various factors in the field of international relations today, feels that it would not be practicable for the United States to enter into an agreement with China such as is envisaged in the outline of a plan under reference. However, if upon further consideration the Chinese Minister of Finance should deem it advisable to suggest simultaneously to the governments of several of the foreign powers which have in the past shown themselves most interested in projects dealing with Chinese financial problems, and especially in projects for Chinese currency reform, a program of the nature summarized above the American Government would be prepared to cooperate with the other Governments in that manner approached, and with the Chinese Government, in exploration of the possibilities of rendering collectively the assistance sought by China.

893.515/402

The Secretary of State to President Roosevelt

WASHINGTON, February 20, 1935.

MY DEAR MR. PRESIDENT: Referring to my letter of February 7, 1935,[46] which brought to your attention the two notes of February 5 from the Chinese Minister in Washington in regard to a plan suggested by the Chinese Minister of Finance for a possible reforming of China's currency and, in connection therewith, extension by the United States to China of a loan and a credit, I submit for your consideration a draft of a possible reply [47] to the Chinese Minister's notes under reference together with a copy of a memorandum under date February 19 [46] in which are stated briefly the factors and the reasoning upon which is based my view that a reply to the Chinese Government in substance along the line indicated would be advisable. I am also attaching a copy of a memorandum of date February 12 [46] which gives an account of previous association of the American Government with projects for Chinese currency reform, showing that this Government has repeatedly manifested a positive interest in such projects.

Inasmuch as nearly two weeks have elapsed since the receipt of the notes from the Chinese Minister, I feel that it would be helpful were we able to give the Minister soon either a reply to the notes under reference or some indication of the probable nature of a reply-to-be.

Faithfully yours, CORDELL HULL

893.515/429

President Roosevelt to the Secretary of State

WASHINGTON, February 21, 1935.

I think this last sentence is too strong. It might be construed as meaning that the United States "would be prepared to cooperate with the other Governments in that manner approached" and of approving "rendering collectively the assistance sought by China" and of committing ourselves, at least in part, to approval of the principle of the loan of $100,000,000 plus a credit of $100,000,000.

Can you not tone this whole sentence down? I think it would be much safer.

F[RANKLIN] D. R[OOSEVELT]

---

[46] Not printed.
[47] *Supra.*

693.1117 American Chinese Trade Commission/33

Memorandum by the Second Secretary of Legation in China (Atcheson)[48]

[NANKING,] February 22, 1935.

Conversation: Mr. Peng Shou-pei, Director of the Department of Political Affairs of the Executive Yuan;
Minister Johnson;
Secretary Atcheson.

The conversation developed chiefly from questions put by Mr. Peng concerning Minister Johnson's leave of absence in the United States, the economic situation in that country, and the American silver policy. Between the answers to various questions and Minister Johnson's explanation of the silver program of the American Government, Mr. Peng stated that there was great need for economic cooperation between the United States and China, a statement which seemed of interest because of a statement made on February 20 to Mr. Johnson by Mr. Tang Yu-jen, Vice Minister for Foreign Affairs, which, while not mentioning Japan, indicated that China's economic salvation lay in the direction of appropriately revised international trade agreements or arrangements. Mr. Peng inquired concerning an American commercial or industrial commission which he had heard might shortly visit China. Mr. Johnson explained that the proposed commission was entirely private, without connection with the American Government, and was financed by private funds. Mr. Johnson said that the commission would visit Japan and that part of it would visit China and part the Philippines; he hoped that it would be composed of men who earnestly desired to learn concerning conditions in this section of the world, and he offered the opinion that much good might result from the commission's visit, both to China and to the United States. Mr. Peng stated that the commission would be given a hearty welcome.

During a discussion of the silver question, Mr. Peng inquired whether it was true that the American gold stocks were disadvantageously large and, if such was the case, whether the United States would be willing to purchase Chinese silver and pay for it in gold. Minister Johnson replied that he could not make an official answer to this question, that he did not know whether the United States Government would be willing to make such purchase and such payment, but that if a proposal of this nature should be made to the Secretary of the Treasury, he was sure that it would be given careful consideration and he personally saw no reason at first glance why the United States Gov-

[48] Copy transmitted to the Department by the Minister in China in his despatch No. 3384, February 26; received March 23.

ernment should be reluctant to pay for silver with gold since it had too much gold and, under its present program, desired to increase its silver stocks.

893.515/422

The British Embassy to the Department of State

Reasons for which His Majesty's Government believe that foreign loans or credits for China would not offer any real or lasting remedy.

1. China's monetary difficulties appear to be due firstly to lack of confidence that the Chinese dollar can remain convertible into silver in face of the present high price of silver and the consequent flight of capital from China, and secondly to China's adverse balance of payments. Both these causes lead to a desire to export silver, and consequently to smuggling and hoarding, and thus to a danger of a run on the banks. A foreign loan would not permanently remove these difficulties and when its proceeds were exhausted the present difficulties would recur, while a fresh burden of foreign debt would have been superimposed, and the available security would have been mortgaged for no lasting benefit.

2. It was suggested that a loan would enable China to return to a free silver standard; but this would now involve raising the value of the Chinese dollar to at least the equivalent of one shilling and eight pence (say 40 cents) with no assurance against further rises. His Majesty's Government cannot but feel that the consequent internal deflation and the check to Chinese exports would necessarily have serious consequences in the absence of any corresponding rise in world prices.

3. In particular His Majesty's Government fear that a foreign loan would be regarded both by speculators and by distressed sellers of silver as an opportunity to export silver quickly before the loan was exhausted, and would thus accelerate the evils which it is desired to avoid.

It is the British experience that disappointing results have usually followed—as in the British case in 1931—from attempts to maintain a threatened exchange position by means of foreign loans, unless the underlying causes of exchange weakness have first been removed.

WASHINGTON, February 25, 1935.

893.515/402

The Secretary of State to the Chinese Minister (Sze)

The Secretary of State presents his compliments to the Chinese Minister and has the honor to acknowledge receipt of the Minister's

two notes of February 5, in one of which the Minister transmits the text of a cablegram from Dr. H. H. Kung, Minister of Finance at Nanking, containing the outline of a plan with regard to silver, and in the other of which the Minister makes certain observations.

In the outline of a plan, the Chinese Minister of Finance suggests that arrangement might be made whereby China would supply the American Government's requirements under the Silver Purchase Act, the amount, the period of years for effecting delivery, and the sale price of silver to be agreed upon between the United States and China; and that, in view of what China deems the necessity for abandoning the exclusive silver basis maintained by China alone and adopting a new currency system involving use of both silver and gold with a view to linking China's currency to that of the United States, the United States (*a*) loan China one hundred million United States dollars and (*b*) extend to China a credit of one hundred million United States dollars "against future delivery of silver to be drawn upon if and when required"; the above project to be "conditioned upon a final agreement on a feasible currency program."

In reply, the American Government deems it not practicable for the United States to embark upon an undertaking such as is envisaged in this outline and ventures to inquire whether the Chinese Government has given thought to the possibility of presenting this outline or an outline similar in essential features simultaneously to the governments of those foreign powers—of which the United States is one—which have in the past manifested interest in projects relating to Chinese financial problems and especially in projects for Chinese currency reform.

WASHINGTON, February 26, 1935.

893.515/425 : Telegram

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

NANKING, February 27, 1935—noon.
[Received 9 : 25 p. m.]

41. The Chinese Minister of Finance called on me February 26, 6 p. m., and described the increasing gravity of the monetary situation in Shanghai. He requested that I report the following points for the consideration of the American Government:

(1) In December the Chinese Government engaged to sell to the American Government through Chase National and Federal Reserve Banks 19,000,000 ounces of silver for delivery during January and February now postponed to March and April. He states that if this silver is exported from Shanghai under present conditions another panic might be precipitated and if the silver is purchased in London

in order to avoid shipment from Shanghai the loss to the Chinese Government will be about $5,000,000. Consequently, the Minister of Finance earnestly hopes that the American Government will permit the silver which it has purchased to remain in the vaults of the Chase National Bank in Shanghai at least until such time as it can safely be shipped from Shanghai.

(2) The Minister of Finance expressed the earnest hope that the American Government would encourage the Chase National Bank and the National City Bank to import into Shanghai United States dollars 20,000,000 where it might be used to unfreeze capital now locked up in real estate and incidentally aid the two large American real estate companies there, the China Realty Company and the Asia Realty Company, which have large sums outstanding in loans secured on Shanghai real estate. If the credit referred to is extended, real estate values will become liquid, confidence will be restored, and the effect on the general monetary situation will be extremely beneficial. He said he would be willing to aid by extending the Government's guarantee to such loans.

(3) The Minister of Finance asked that I express to the American Government his very earnest hope that the Government will give the most serious consideration to the proposal which he says is now being considered by the American Government and a reply to which he is anxiously awaiting. He expressed doubt whether the American Government realizes the extreme gravity of the crisis in China caused, as is generally thought in this country, by the silver buying policy of the American Government.

JOHNSON

893.515/430 : Telegram

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

LONDON, March 1, 1935—4 p. m.
[Received 4:16 p. m.]

84. I called upon Craigie [50] to express congratulations on his designation as one of the Assistant Under Secretaries of State. In the course of the conversation he informed me, stating that they were his own strictly confidential views, (1) that in the recent British proposals for an Anglo-Japanese-American-French-Chinese discussion on economic affairs in the Far East and particularly China the first reactions of the Tokyo Foreign Office were apparently favorable. Craigie deems, if it is possible to keep the price of silver not above its present level and especially if these international conversations lead to some sort of international loan to China, the result may ease Far Eastern

[50] Robert Leslie Craigie, British Foreign Office Counselor.

tension and the successful economic conversations be followed by political conversations with the hope that Japan and China might evolve a *modus vivendi* on the question of Manchuria. Reports that individual Chinese had approached American officials in seeking financial assistance have been received here but Craigie felt any Far Eastern action that did not include Japan would be detrimental to Anglo-American purposes in the Far East. He stressed the fact that object of British policy, at this time, was to relieve Far Eastern tension and bring Japan into some final naval agreement that could be accepted by the United States and Great Britain. Craigie felt that the first report of reactions from Tokyo upon Yamamoto's [51] return indicated Japanese were thinking along right lines. Foreign Office understands Hirota [52] desires an early naval conference which Craigie personally did not feel could be held anyway before the end of September.

2. Craigie said in 2 or 3 weeks Foreign Office anticipated opening conversations on German naval program with the German Ambassador here.

3. Simon [53] returned today from Paris where he discussed with French his plans to visit Berlin the end of next week. Simon has made no decision as to Warsaw and Moscow visits but it is believed extremely unlikely he will personally contemplate such a journey until he has returned to London from Berlin.

Simon has asked me to call on him next Monday.[54]

ATHERTON

893.515/431

Memorandum by the Under Secretary of State (Phillips)

[WASHINGTON,] March 1, 1935.

I sent for the British Ambassador [55] this morning and said that I was ready to discuss with him the matters pertaining to the Far East which he had brought to my attention at our last meeting and regarding which he had asked for an expression of our views. I told him that some little time ago we had received a communication from the Chinese Government asking for a loan or credit to help them over their present financial difficulties and that we had replied that we could not do this, and asked the Chinese Government whether this was not a matter of interest to the powers, of which we were one, especially concerned with the Chinese financial situation. I then handed the Ambassador, on a blank piece of paper, a brief summary of this exchange of communications.

---

[51] Vice Admiral Isoroku Yamamoto, technical adviser to the Japanese delegation at the preliminary naval conversations, London, 1934.

[52] Koki Hirota, Japanese Minister for Foreign Affairs.

[53] Sir John Simon, British Secretary of State for Foreign Affairs.

[54] See memorandum by the Chargé in the United Kingdom, March 5, vol. I, p. 194.

[55] Sir Ronald Lindsay.

I then made the following oral statement to the Ambassador:

"This Government, like the British Government, desires to be of assistance to China and believes likewise that the rendering of assistance to China should take the form of cooperative and collective action by and among the principally interested powers, with of course the assent and collaboration of China. But we are not convinced that the rendering of such assistance should be made conditional upon there first being evolved a *détente* in the Far East. In our view it is conceivable that the according of collective assistance to China in her present moment of great need, especially of financial assistance, might contribute toward preventing further deterioration in the situation in China and toward making possible the effecting of a more satisfactory *détente* than can possibly be arrived at under existing conditions.

"We would like to know whether the British Government would be willing to take the lead in trying to work out a plan for financial assistance by the powers which have in the past shown most interest in projects for Chinese currency reform and in Chinese financial problems. We would view with gratification its doing so."

I referred to the first line of my oral statement in which I made use of the words, "desires to be of assistance". This expression I said was made in its broader sense and that I did not wish to be understood as binding this Government in any way whatsoever to financial assistance; the extension of financial assistance could not, of course, be done without the approval of the Secretary of the Treasury and the President; I used the expression, therefore, merely to emphasize our historic position of desiring to help when we properly could do so.

We discussed the use of the word, "*détente*" in the Ambassador's oral communication to me. I said that in my dictionary it seemed to have various meanings, and I was not very clear as to the meaning which he attached to it. In my dictionary, among its various synonyms, the word might be used as a lessening of nervous strain. Sir Ronald said he thought in general that that covered the expression, which was purely a negative one.

Mr. Hornbeck, who was present at the conference, made certain observations. He commented upon the confidential memorandum entitled, "Reasons for which His Majesty's Government believe that foreign loans or credits for China would not offer any real or lasting remedy",[56] and asked whether these views referred to all loans or had reference only to the loans sought by the Chinese Government from the British Government. According to my understanding the Ambassador replied that he assumed the answer would be in the affirmative.

WILLIAM PHILLIPS

[56] *Ante*, p. 542.

893.515/431a : Telegram

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

WASHINGTON, March 2, 1935—2 p. m.

63. Press stories now show that there are in process international diplomatic conversations on the subject of the situation in the Far East, especially China, and the possibility of cooperative financial assistance to China.

A variety of initiatives, from China, from Japan and from Great Britain has brought about this development. The British Government has apparently elected to constitute itself the prime mover in the canvassing of the powers with regard to possibilities. Department will give you details as soon as expedient and possible.

Meanwhile, Department suggests that you avoid being drawn into discussion of the subject, stating merely, to possible inquirers, that the question, whatever it is, is being handled between the various foreign offices interested and concerned.

Repeat to Tokyo [as] No. 30.

PHILLIPS

893.515/432a

The Under Secretary of State (Phillips) to President Roosevelt

WASHINGTON, March 2, 1935.

MY DEAR MR. PRESIDENT: Developments of importance in regard to relations with China during the week February 25 to March 2 have been as follows:

On Monday, February 25, the British Ambassador called on me and stated that the Japanese had recently asked for information with regard to the attitude of the British Government toward the financial situation in China; and that the Foreign Office had thereupon decided that this was an opportunity to explain the British Government's views to the three other Governments principally concerned, namely, China, the United States and Japan. The Ambassador continued to the effect that the British had followed the situation in China, and especially proposals involving loans or credits, with close attention; and that they had had to discourage such loans or credits. He then handed me a copy of a confidential memorandum giving "reasons for which His Majesty's Government believe that foreign loans or credits for China would not offer any real or lasting remedy." He said that the views expressed in that memorandum had been communicated to the Chinese and to the Japanese Governments. However, he said, the British had been careful to indicate that the situation was one with regard to which they felt grave concern and they have emphasized their desire to help China, in cooperation with the other governments

principally concerned. Their general policy in the Far East was influenced by their desire for cordial relations between China and Japan, based on a friendly settlement of outstanding difficulties. This they regarded as the only possible basis for a general relaxation of tension in the Far East which they considered of supreme importance and without which they felt that there could be no satisfactory solution of any of the particular problems. They felt that any plan to help China needs a sound basis and must be carried out with friendly agreements with the other powers and of China herself. They would value an expression of the views of the Chinese Government as to how this might be done. If China responded favorably to their communication, the British Government would welcome the cooperation of the United States in any useful steps.

The Ambassador concluded his remarks by asking whether we could give any indication of how we view the problem as a whole. He said that he had purposely refrained from alluding to the American silver purchasing policy and that he would say, on his own initiative, that an easing of the tension in the Far East would have a very real effect upon naval negotiations.

On the next day, February 26, we gave the Chinese Minister the reply, which had been decided upon before the British Ambassador's call, to his notes of February 5 inquiring about the possibility of a loan or a credit from the United States to China. In this we said:

". . . the American Government deems it not practicable for the United States to embark upon an undertaking such as is envisaged in this outline and ventures to inquire whether the Chinese Government has given thought to the possibility of presenting this outline or an outline similar in essential features simultaneously to the governments of those foreign powers—of which the United States is one—which have in the past manifested interest in projects relating to Chinese financial problems and especially in projects for Chinese currency reform."

From the above it will be seen that the positions taken by the British Government and by the American Government were identical in regard to two points of major importance: each of the two replied unfavorably to China's solicitation from it of a loan or a credit; each indicated its thought that such assistance as might be rendered to China in that connection should be on a basis of cooperation among several of the powers most concerned. The British Government, however, went further than did we: they affirmed their desire to be of assistance to China, they intimated that China should come to an agreement with Japan (which intimation on Great Britain's part would be highly gratifying to the Japanese, but probably not so to the Chinese), and they volunteered an initiative toward canvassing with the interested

powers possibilities in relation to the question of bringing about an easing of tension and affording to China some form of assistance.

On February 28 the Chinese Minister came to us and gave us information which showed that the British Government had expressed itself to the Chinese Government in terms similar to those in which it had expressed itself, through the British Ambassador here, to us.

When, on February 26, we made our reply to the Chinese notes to us, we told the Chinese Minister that we expected to inform the British Government of the exchange of communications between the Chinese and us.

On Friday, March 1, the British Ambassador called, and I informed him that we had considered with gratification the information which he had given us on the 25th. I told him of the approach which the Chinese had made to us on the subject of a loan and a credit and I informed him of the substance of our reply. I then stated that this Government wishes, as does the British Government, to be of assistance to China and that we believe, as do they, that the giving of assistance, if any, to China should be by way of cooperative action by and among the principally interested powers with, of course, the assent and collaboration of China. I pointed out that, to that extent, our views were apparently identical. I made it clear that in speaking of assistance I was not in the slightest degree committing this Government to any line of action whatsoever. I then said that we were not convinced that the rendering of such assistance should be made conditional upon there first being achieved a relaxation of tension in the Far East; that in our view it is conceivable that the according of collective assistance to China in her present moment of great need might contribute toward preventing further deterioration in the situation in China and toward making possible a more satisfactory resolving of some of the questions there than can possibly be brought about under existing conditions. I said that we would like to know whether the British Government was disposed to take the lead in trying to work this matter out among the powers which had in the past shown the most interest in projects for Chinese currency reform and in Chinese financial problems; and that we would view with gratification its doing so.

Late on the evening of March 1 there came in a telegram from London in which Atherton gives an account of a conversation with Craigie, now an Assistant Under Secretary in the British Foreign Office. Craigie, stating that these were his own strictly confidential views, said that in the recent British proposals for an Anglo-Japanese-American-French-Chinese discussion of the economic situation in the Far East and especially China, the first reactions of the Tokyo Foreign Office had apparently been favorable.—This is indicative of something

792998—53——42

more specific and more comprehensive than anything that the British Ambassador had said to us. Also, I may remark in passing, the press reports this morning give ground for doubt whether the reaction of the Tokyo Foreign Office has been in fact favorable.—Craigie thought that if the price of silver could be kept from going above its present level and if the international conversations to which he had referred were to lead to some sort of an international loan to China, the result might be an easing of the Far Eastern tension and the economic conversations thus successful might be followed by political conversations affording hope that China and Japan might evolve a *modus vivendi* on the Manchuria question. Craigie felt that any Far Eastern action in which Japan was not included would be to the disadvantage of Anglo-American objectives in the Far East. He said that the objective of British policy at this time was to ease the tension in the Far East and bring Japan into some naval agreement that could be accepted by Great Britain and the United States. He said that the British Foreign Office understood that Hirota desires a naval conversation at an early date, but that he, Craigie, did not feel that it could be held before the end of September.

In the meantime, press stories appeared last evening and this morning spreading reports to the effect that consideration is being given internationally to the question of possible financial assistance to China. The Japanese Ambassador and the Chinese Minister, noting these stories, have made informal inquiries. To these we have as yet made no reply. An important press story has come from London this morning to the effect that it has been given out there that the British Foreign Office has approached a number of powers on the subject, including France.

In the light of all of the above, it is our view in the Department that we should let the most possible be made of the fact that the British Government has taken the initiative in regard to this question; that, in brief, we should, with gratification, let them play the part of broker in an endeavor to explore the possibility of bringing the powers into line for the considering and the possible carrying out of a plan for improving the situation in the Far East, in which plan there may be involved the affording cooperatively of some financial assistance to China. On our part, we shall have to decide, tentatively but as definitely as possible, how far we may be willing to go by way of encouraging the British Government and giving assurance of support, in principle, in the effort upon which that Government is embarked. It is my belief that the effort has constructive possibilities and that we should give it encouragement.

Faithfully yours, WILLIAM PHILLIPS

893.51/5973 : Telegram

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

NANKING, March 4, 1935—3 p. m.
[Received March 4—1:45 p. m.]

44. Reliable American news correspondent informs me that a responsible official of the Ministry of Finance in informal conversation this morning said that the monthly deficit of the Chinese Government for military and other expenses is now Chinese dollars 18,000,000 and that in the recent Hankow conference General Chiang insisted that military expenditures could not be reduced. Informant indicated that the principal drain at present is settling of accounts with different generals in Szechwan and prosecution of communist campaign there. The Chinese informant said the Government had made energetic efforts to obtain a large foreign loan from non-Japanese sources but that prospects of success are slight owing mainly to the inability of the Chinese Government to provide adequate security and pay high interest. He said that apparently the only sort of loan which the Government could hope for would be a "political loan". He added that unless such loan were obtained the Chinese Government would have to "eat Japanese poison" (paraphrase of China proverb). American informant inferred from the remarks of the Chinese official that the Chinese Government would prefer to obtain aid from both Japanese and non-Japanese sources. The Chinese official thought that some decisive development in the financial situation of the Chinese Government would occur within 2 or 3 weeks.

PECK

893.515/439 : Telegram

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

PEIPING, March 4, 1935—4 p. m.
[Received March 5—4:45 p. m.[57]]

106. Department's No. 56, February 28, 6 p. m.[58]

1. The financial situation in Shanghai is, according to all responsible people with whom I talked, most acute because there now exists in Shanghai a scarcity of monetary silver. The reason for this is that during late summer and early winter bankers and others sold or otherwise disposed of their stocks of the silver in order to take immediate advantage of large profits. They are now under the necessity of meeting pressing local obligations and to that end must buy silver on a

[57] Telegram in two sections.
[58] Not printed.

rising market thus losing earlier profits. Situation has been made additionally acute because of cheap silver which having come to Shanghai for investment in Chinese Government securities and Shanghai real estate has now gone thus wiping out an important factor in Government's financial policy and leaving Shanghai real estate (in which I believe members of Government have been deeply interested) in a precarious condition.

2. Above situation temporarily steadied by sundry local expedients make it hazardous for the Government to ship silver in large quantities from Shanghai for the present. Kung informed me that, rather than risk this hazard, he attempted buying silver in London but silver prices there rose at once threatening severe loss to Government.

3. It is thought that bankers and others in Shanghai were lacking in judgment when they disposed of their stocks of silver in the face of a certain local demand but the straits in which they now find themselves threatens a collapse of the financial structure of Shanghai upon which the policy of the Ministry of Finance has been very largely dependent and in their desperation bankers and government officials are blaming the United States silver policy for their plight.

4. I believe that it would assist Minister of Finance to steady situation if Treasury could authorize Chase National to leave silver in Shanghai until crisis has passed or more permanent measures have been taken. Such a step would be concrete evidence of our desire to assist. I understand Chase National is cognizant of Kung's desires in this matter.

5. I should add in this connection that certain bank has begun a campaign intended to tap large supplies of industrial and ornamental silver now scattered throughout country in the hands of silversmiths and private citizens. This silver apparently had not yet begun to react on the strength of present high price of silver. If China can avail itself of these domestic supplies it can, without drawing upon general market, meet its contract with Federal Reserve and of course carry out plan which I understand Kung has proposed officially through Chinese Legation at Washington.

6. With reference to Kung's request that American Government encourage National City and Chase National to bring funds to Shanghai I can only state my belief that he hopes thereby to obtain aid of American banks in his efforts to encourage silver to return to Shanghai to revive confidence and free capital now locked up in real estate loans. His idea appears to be that American banks in question lend money on Shanghai real estate through Chinese banks as guarantors. He stated that he was willing to guarantee such loans to the American banks if they would not accept sole guarantee of Chinese banks. This proposal is related directly to situation described in paragraph 1 and

represents a desperate effort to break present deadlock and start a flow of silver back to Shanghai.

7. With reference to the proposal which Kung has laid before United States Government, I came into possession of the details of this proposal only on February 27th when Kung gave to me copies of two informal memoranda purporting to have been presented to the Department on February 1st [59] and February 5th [60] with an appended note giving memorandum presented January 21st [61] and verbal note of February 5th.[62]

8. I am not in possession of sufficient facts upon which to base an opinion as to the ultimate feasibility of such a plan as that outlined in the documents referred to. Any plan for a change in, or reform of, Chinese currency must be fraught with difficulties not only in China where the Government has never exercised any control over the currency used by the people but also in countries adjacent to China where silver enters into towns across the borders. In this connection, I shall only mention difficulties now being experienced by Japan because of the appreciation of the Manchukuo silver in terms of Japanese yen.

9. I am of the opinion that such a proposal should not be discussed with China nor any attempt made to carry it out without the friendly cooperation of powers interested in the consortium who formerly proposed a currency loan. In this connection, and with reference to the Department's telegram 53 [*63*], March 2, 2 p. m., British Minister informed me yesterday that last November T. V. Soong to whom Minister of Finance had entrusted matter approached him in regard to a sterling loan of 20 millions to cover impending financial situation in Shanghai. Further details he did not give me. He stated that he referred the matter to the British Government which replied that such a loan was not possible from Great Britain because under present rulings British Treasury is unable to make loan except under conditions which China could not meet and in any case loan would be but temporary makeshift. British Minister stated that under constant importunities of Soong British Government recently instructed its representatives at Paris, Tokyo, and Peiping to discuss international cooperation in showing financial assistance to China and said that he, pursuant to instructions, has informed the Chinese Government of these steps and has stated that British Government is not optimistic regarding possible assistance but that in any case assistance can only be given provided Sino-Japanese relations are put on a better basis and presumably with the friendly cooperation of Japan. I

[59] *Ante*, p. 530.
[60] *Ante*, p. 533.
[61] *Ante*, p. 528.
[62] *Ante*, p. 535.

understood him to say that he had requested Chinese Government to put forward a concrete proposal regarding such international financial assistance for discussion with the powers concerned. British Minister stated that in his opinion these discussions were not likely to be fruitful of results but he did believe that the British Government's action in the matter might ward off independent action of Japan.

10. With reference to paragraph 5, Chinese Government doubtless may be able to tap large supply of privately owned industrial and ornamental silver but may be forced to use methods of coercion which would damn every one, foreign and Chinese, connected with the scheme. Private Chinese hoarders of silver are not likely to part willingly with this silver merely for paper or for other minted silver dollars.

JOHNSON

893.515/432 : Telegram

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

TOKYO, March 4, 1935—5 p. m.
[Received March 4—9 : 30 a. m.]

47. Department's 30, March 2, 2 p. m. via Peiping.[63]

1. My British colleague [64] called on me this morning and told me in substance and detail of Lindsay's talk with Phillips and the developments in China and the approach to the Hong Kong bank which had led up to it.

2. Clive called on Hirota last week and told him under instructions from London that the British Government welcomed with pleasure the development of Sino-Japanese friendship. Clive states that he made no qualifying comment. He says that Hirota was very much pleased with this assurance and replied that for his part he would welcome the cooperation of the interested powers, especially Great Britain and the United States, in some constructive plan to help China out of her present difficulties. Hirota added that there was no question whatever of a loan from Japan and that in any case he did not think that a loan would solve China's financial troubles. Hirota then described the present intention and efforts of Japan to develop better relations with China very much as he had explained them to me, as reported in my 43, March 2, 1 p. m.[65]

---

[63] See last paragraph of telegram No. 63 of the same date to the Minister in China, p. 547.

[64] Sir Robert Henry Clive, British Ambassador in Japan.

[65] *Ante*, p. 67.

3. Clive told me that the British Ambassador in Paris had communicated to the French Government for its information and in general terms the British attitude towards assistance to China but in less detail than Lindsay's communication to Phillips.

4. Furthermore, Cadogan [66] had been instructed a week ago to sound out the attitude of the authorities in Nanking with regard to some plan for international financial assistance but with the careful avoidance of the term "consortium". No reply from Cadogan has yet been received.

5. Clive feels that the success of any financial plan will depend upon the possibility of persuading T. V. Soong to modify his intense anti-Japanese attitude and upon his reinstatement as Minister of Finance.

Repeated to Peiping.

GREW

893.515/442

Memorandum by the Under Secretary of State (Phillips)

[WASHINGTON,] March 4, 1935.

The Chinese Minister called this morning and asked whether I could give him any information with regard to the reply which we had made to the recent communication which the British Ambassador had made on behalf of his Government with respect to financial assistance to China. I told him that we assumed the British Government had addressed a similar communication to the Chinese Government; that we had said in reply that we were sympathetic in general to the views as expressed, and that we welcomed the initiative which the British Government had taken in this matter. The Minister inquired in particular regarding the comments which we had made to the British suggestion that there should be a Chinese-Japanese "détente" before any substantial assistance could be rendered by outside powers. I replied that I had been a little uncertain as to the precise meaning in English of the word "détente", since it apparently had a good many different synonyms, but Sir Ronald and I agreed that it meant in this case a lessening of the tension between China and Japan. In our reply to Sir Ronald we had made the suggestion that it might not be out of the way to consider extending help to China even before the "détente" could be brought about.

The Minister asked whether we had communicated the substance of our exchange of notes between China and the United States to the British and Japanese, to which I replied that I had given Sir Ronald the substance of this exchange and that I was going to make

[66] Sir Alexander Cadogan, British Minister in China.

the same communication to the Japanese, but that I had not done so as yet. Mr. Sze seemed quite satisfied with these comments.

WILLIAM PHILLIPS

893.515/443a

Oral Statement by the Under Secretary of State (Phillips) to the Japanese Ambassador (Saito)

[WASHINGTON], March 4, 1935.

Last week we were informed by the British Ambassador of an inquiry made to the British Government by the Japanese Government relating to the financial situation in China and of the reply made and the action taken by the British Government in response to that inquiry.

It is our understanding that the British Government has expressed to the Japanese and the Chinese Governments and to us, in substantially identical terms, its views with regard to this matter and that it has solicited the views of interested governments. We informed the British Ambassador that our views in regard to the question of possible financial assistance to China are in substantial accord with those communicated by him on behalf of his Government to us; that we believe that financial assistance to China, if rendered, should be on the basis of some sound plan and might best be extended by cooperative action on the part of the powers most interested and concerned. We have made known our views in this sense in reply both to the British inquiry and to an inquiry from the Chinese Government.

893.515/463

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

No. 1260 LONDON, March 5, 1935.
[Received March 13.]

SIR: I have the honor to refer to the Department's telegram No. 41 of March 2, 4 p. m.,[67] and in this connection to forward memoranda [67] of two conversations on the question of assistance to China, one on an occasion sought by the Chinese Minister [68] and the other with Sir Victor Wellesley at the Foreign Office.

Apart from the information as such arising out of the conversations, two aspects of them are of interest: first, the fact that Sir Victor Wellesley states the Foreign Office will not proceed further

[67] Not printed.
[68] Quo Tai-chi.

until it has had a reply from the Chinese Government setting forth any considerations of proposals it has to make in the circumstances, while the Chinese Minister states very definitely that the situation in Nanking is such that the Chinese Government could not make any proposals at the present time and that the initiative must come from London or Washington. Secondly, the distinct change in the attitude of the Chinese Minister vis-à-vis Japan which his remarks indicate. He no longer inveighs against China's Far Eastern neighbor or Japanese policy in the Far East but rather claims that Ambassador Matsudaira [69] has so very ably presented the Japanese case that China's position is neither understood nor sympathetically considered in England at the present time.

Respectfully yours, RAY ATHERTON

893.515/444 : Telegram

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

LONDON, March 6, 1935—1 p. m.
[Received March 6—12 : 15 p. m.]

94. Referring to "garbled versions of American and British intentions" which have been cabled from Washington to Tokyo, in an obviously inspired article today the *Times* refers to the recent discussions in Washington and states, *inter alia* "The British Government have called the attention of the American, French and Japanese Governments to the difficulties under which China is laboring, though it may be presumed they did not lay great stress on the silver question in Washington. All three governments have now expressed their readiness to consider any practical proposals to safeguard Chinese currency in the interests of international trade."

The Foreign Secretary informed me yesterday that origin of British *démarche* lay in representations made to him by the Chinese Minister a fortnight ago on the present plight of China. Simon informed the Chinese Minister that while he would be prepared to suggest to the interested powers discussions, it must be on some specific proposals and not on China generally. Therefore after a preliminary *démarche* (Department's 41, March 2, 4 p. m.[70]) no further action could be expected until Nanking made definite suggestions for consideration by the interested powers.

In conversation with Wellesley on Monday he also expressed the above point of view but left me with the impression that out of this

[69] Tsuneo Matsudaira, Japanese Ambassador in the United Kingdom.
[70] Not printed.

present initiative Great Britain would welcome a Sino-Japanese *rapprochement* which they regard as a preliminary to facing reality in regard to the present Manchukuo situation.

I also saw the Chinese Minister on Monday who stated he was awaiting instructions from his Government in reply to Simon's suggestion that Nanking present concrete proposals but that he personally felt the situation was such in Nanking today (presumably in view of the weight of Japanese representations being made there) that he did not feel the Chinese Government could take any initiative in making proposals, and that the impetus must come either from London or Washington. He told me by way of illustration Nanking had pointed out to him recently that any strongly anti-Japanese sentiments he now uttered here might perhaps serve a useful purpose in London but he must remember a slap to Japan in England very often meant as a result a blow in the belly received by Nanking from Japan.

Memoranda of these conversations going forward today.[72]

ATHERTON

893.515/447 : Telegram

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

WASHINGTON, March 8, 1935.

71. Department's No. 70, March 8, 4 p. m.[72] On March 7 the Department released to the press the reply made by the Under Secretary to inquiries in regard to the recent discussion of Far Eastern affairs with the British Ambassador, as follows:

"I informed the British Ambassador that this Government welcomed the initiative of the British Government and shared the view that consideration might well be given to the possibility that, if China needs and desires financial assistance from abroad, the Powers interested and concerned should canvass sympathetically the possibility of rendering such assistance and rendering it by cooperative action.

"I also noted that for many years past the principle of cooperative action in such matters has been in favor among the Powers."

Repeat to Nanking; also to Tokyo as Department's No. 34.

HULL

893.515/469 : Telegram

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

WASHINGTON, March 18, 1935—7 p. m.

80. Your 41, February 27, noon, from Nanking.

1. On March 1 this Department forwarded to Treasury Department

[72] Not printed.

a copy of your telegram under reference. In letter dated March 14 Treasury Department replied in part as follows:

"With reference to item (*a*) (see paragraph 1 of your telegram under reference) the following résumé of the transaction in question is furnished for your information:

About the middle of November, 1934, the Treasury Department, through its fiscal agent, purchased from the Chinese Government several lots of silver totalling 19,000,000 ounces for delivery during the month of January, 1935, on board United States steamer or steamers for shipment to the United States. These purchases were made because of the fact that the Chinese Government was a seller of silver at that time in large quantities, apparently because of their need for foreign currencies. The Treasury Department offered to purchase the silver at that time as a means of cooperation with the Chinese Government, which otherwise might have experienced difficulty in marketing this amount of silver in the open market. At the request of the Chinese Government, delivery and payment for this silver was subsequently postponed until February, 1935. In February a further postponement was requested by the Chinese Government and in order that they might be given an opportunity to arrange delivery with the least possible inconvenience, the Treasury Department agreed to accept delivery of 4,000,000 ounces in February, 1935; 5,000,000 ounces in March, 1935; 5,000,000 ounces in April, 1935; and 5,000,000 ounces in May, 1935. At the same time the original contracts were altered to allow for delivery of this silver either in Shanghai or London at the option of the Chinese Government. Up to the present time a total of 9,000,000 ounces has been delivered in London, which meets all the requirements of the contracts up to the last day of April, 1935. As no further deliveries of silver are called for under these contracts until the end of April, and then at the rate of only 5,000,000 ounces a month, it does not appear that the fulfillment of this contract calls for any further action at this time. However, if at the end of April the Chinese Government still desires it we will give favorable consideration to suggestion of a further delay.[73]

The suggestion under heading (*b*) (see paragraph 2 of your telegram under reference) that the American Government will 'encourage the Chase National Bank and the National City Bank to import into Shanghai U. S. $20,000,000 where it might be used to unfreeze capital' does not appear to be within the province of the Treasury Department and for this reason I do not think it would be proper for me to take any action on this suggestion."

2. With regard to paragraph 3 of your telegram under reference, Department on February 26 handed to Chinese Minister this Government's reply (see second paragraph of Department's 64, March 5, 11 a.m.[74]).

3. You may communicate informally to Kung, either directly or through Peck, the substance of the foregoing and express this Gov-

[73] Insertion of this sentence, not in the letter as received from the Treasury Department, was approved by President Roosevelt.

[74] Not printed.

ernment's regret that it is not in position to pursue the course suggested as outlined in your telegram under reference.

HULL

893.515/514

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

No. 1204 TOKYO, March 19, 1935.
[Received April 8.]

I have the honor to report that the first intimation that the British Government was feeling out the attitude of the interested Governments in regard to some form of joint international assistance for China reached the Japanese public through news despatches dated Washington, March 1, which described the visit of Sir Ronald Lindsay to the Under Secretary of State on that day and assumed that the visit was concerned with reports that various Powers were considering loans to China. Some of the news despatches inferred that the Powers were considering such loans for the purpose of rendering it unnecessary for China to enter into any economic alliance with Japan, as such an alliance would create numerous international points of friction.

Under a London date of March 2, official confirmation was given to the report that the British Government had approached the members of the Four-Power Consortium, inviting them to make suggestions for joint financial assistance to China, but emphasizing that this action was not taken in order to forestall any separate Sino-Japanese agreement which might be reached.

These reports were received in Japan with suspicion and some indications that the Japanese consider joint financial aid to China as a move to thwart Japan's aims and objects in China. Following are some of the official and non-official views expressed in this connection.

Official Reaction.

Although the Japanese Minister for Foreign Affairs had previously informed the British Ambassador in Tokyo that the cooperation of the Powers interested, especially the United States and Great Britain, in any constructive plan to assist China in her present difficulties, would be welcomed by Japan, Mr. E. Amau, the spokesman for the Foreign Office, did not adopt this same attitude when questioned by the foreign press correspondents on March 4 and March 6. He gave the correspondents the impression that he was resentful and suspicious of the reported conversations. On March 4 he said, according to the newspapers, that it was premature to make any statement in regard to Japan's response to a proposal for joint international assistance to

China, because no approach had yet been made to Japan. Questioned in regard to Japan's attitude toward joint financial assistance to China, he evaded the question by expatiating upon the fact that the recent turn for the better in Sino-Japanese relations was due to a change of heart on the part of the Chinese leaders, who were now returning to Sun Yat-sen's policy of promoting friendly relations with Japan. "This is not a new policy for China, nor is it a new policy for Japan. Chinese leaders, who at one time deviated from Dr. Sun Yat-sen's original policy, are merely returning to it." "Why not let China and Japan alone?" Asked if the return to Sun's policy would mean China's dependency on Japan's financial aid alone, Amau said that he did not think so. Anyway, "Japan is not in a position to discuss with others its relations with China." Asked if the Sun policy would exclude the possibility of other powers assisting China, Amau replied that he did not think so. Asked if he believed that the move for joint financial assistance to China was for the purpose of blocking a Sino-Japanese *rapprochement*, Amau replied that "It seems that the powers are excited and agitated. That is a mistake, as China is simply returning to its original policy of cultivating friendly relations with Japan. China has not asked for a financial loan from Japan. This question has not arisen recently between the two countries." Asked if Japan would object to joint financial assistance to China, if Japan would be willing to discuss such assistance, and if Japan would receive favorably a plan to extend credits to China, Amau replied, "We can't say."

In his interview with the foreign press correspondents on March 6, Mr. Amau admitted that the Japanese Government had been informed of the British move but refused to comment on it, except to say that "Japan has no objection to discussing an international loan to China through diplomatic channels". The press correspondents took this to mean that the Japanese Government would refuse to be drawn into a conference, where it might find itself in a minority. He also said that "We must make it clear that Chinese matters must be taken care of by the Chinese themselves", implying that international assistance involving any degree of control over Chinese affairs would be opposed by the Japanese Government.

There was an odd discrepancy between the cordial attitude taken by Mr. Hirota in discussing international assistance to China with the British Ambassador, and the semi-resentful, semi-belligerent attitude taken by Mr. Amau in discussing the same matter with the foreign press correspondents. It may be (as has often been suspected) that Mr. Amau takes his cues from others than his nominal chief. The military for some time past have been persistently deprecating the alleged change of heart on the part of the Chinese statesmen,

insisting that the moves for improved relations with Japan are insincere and that deeds, not words, must be forthcoming to prove China's sincerity. It is probable that the Japanese military, for some purpose of their own, are opposing a Sino-Japanese diplomatic *rapprochement*, and likewise are opposing international aid for China.

Newspaper Comment.

The newspaper comment has been practically unanimously adverse to any sort of international assistance to China and is inclined to attribute ulterior motives to the proposal initiated by Great Britain. The general interpretation given by the Japanese newspapers to the move for international assistance for China is that it is intended to frustrate Sino-Japanese economic cooperation—the goal toward which they profess to believe the recent conversations between Japanese diplomatic and military officers and Chinese officials were directed. How far the newspaper comment reflects Japanese official opinion it is impossible to state, but the unanimity of the comment would appear to indicate an inspiration from some source.

[Here follows Japanese press comment.]

Mr. Hirota's Attitude.

That the moderate *Asahi* version of the official attitude is more nearly correct than the chauvinistic *Nichi-Nichi* version is definitely shown by two conversations which Mr. Hirota, the Minister for Foreign Affairs, had with the British Ambassador and myself. In his conversation with me on March 2, 1935, Mr. Hirota stated that the Chinese Government had come to realize recently the necessity of improving relations with Japan and that the Japanese officials had therefore been discussing at Nanking the possibilities of attaining this end through the curtailment of anti-Japanese agitation in China. Mr. Hirota asserted that he believed sincerely that the solution of various problems such as the naval question could be found if relations could be improved between Japan, China and the Soviet Union, and that he also believed that the Chinese authorities shared this view. He added, however, that the financial difficulties of China constituted a stumbling block to the betterment of relations, and that this factor affected other nations as well as Japan, implying that international assistance to China is indicated by the circumstances. He then said that he was working to construct a real basis for peace in the Far East but that this work would take time, and in the meantime he hoped that the Powers would repose confidence in his efforts. (Embassy's telegram No. 43, March 2, 1 p. m.[75]).

Mr. Hirota expressed much the same sentiments to Sir Robert Clive, the British Ambassador, in a conversation with him at about the same

[75] *Ante*, p. 67.

time, adding that, as far as he (Mr. Hirota) was concerned, he would be glad of the cooperation of the Powers, and especially for that of the United States and Great Britain, in devising some constructive plan for the assistance of China in her present difficulties. He said that he did not think that a mere loan to China under the circumstances would solve China's monetary difficulties, and stated that Japan was not considering lending money to China.

These statements of Mr. Hirota tend to emphasize the cleavage of opinion between the conservative element of the Foreign Office and the chauvinists, whether in or out of the Foreign Office. The military, the chauvinists in the Foreign Office (as represented by Mr. Amau) and most of the newspapers, appear to stand with the "hands off China" policy enunciated by Mr. Amau last April,[76] while Mr. Hirota and his associates apparently sincerely desire to effect a real *rapprochement* with China (as well as with other countries) and welcome international assistance toward this end. Every indication points to the conclusion that Mr. Hirota and the conservative element in the Government are rapidly returning to the principles of the "Shidehara Diplomacy",[77] the foremost of which was the principle of befriending China instead of coercing that nation.

Respectfully yours, JOSEPH C. GREW

893.515/473 : Telegram

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

NANKING, March 21, 1935—5 p. m.
[Received March 21—1 : 10 p. m.]

53. On March 21, 3 p. m. I called at the Foreign Office and was given the following *aide-mémoire* dated March 21:

"Under date of March 8, 1935, the British Government advised the National Government of its view that full and frank communications concerning China's economic and financial difficulties should be undertaken among the governments most closely interested, and stated that it had already communicated in that sense with the Governments of Japan, the United States of America and France.

The National Government has stated, in response to the British Government's inquiry as to its attitude, that it welcomes the action of the British Government in opening discussions with the governments chiefly concerned and holds itself ready to participate therein."

Sent to the Department and Legation.

PECK

---

[76] See statement of April 17, 1934, *Foreign Relations*, Japan, 1931–1941, vol. I, p. 224.

[77] Named for Baron Kijuro Shidehara, Japanese Minister for Foreign Affairs, 1924–27, 1929–31.

893.515/501

Memorandum by the Chief of the Division of Far Eastern Affairs (Hornbeck) of a Conversation With the Chinese Minister (Sze)

[WASHINGTON,] March 26, 1935.

The Minister called and inquired whether anything new had developed in connection with the British Government's approach on the subject of international assistance to China.

I replied that we had had nothing since the conversation between the Under Secretary of State and the British Ambassador some three weeks ago of which there had been news in the press.

The Minister said that he had now found that, as between the copy of the British Treasury's communication to the Chinese Minister of Finance and the British Foreign Office's communication (through the British Minister in China) to the Chinese Government, there were some differences in text. He said that it had been explained to the Chinese Government that the British Government's idea of a *détente* in the Far East was that it was something desirable but not something to be laid down as a "condition".

The Minister said that on March 18 the Chinese Government had replied to the British Government's request for the former's "views"; that the Chinese Government appreciated the British Government's approach in the matter; that the Chinese Government shared the view that a *détente* was desirable; and that the Chinese Government would like to be informed by what method the British Government proposed "to arrange for the preliminary conversations". I inquired what was meant by "the preliminary conversations". The Minister said that this meant conversations with regard to the question of "the currency reform loan". I said that it had been my understanding that the British Government had asked the Chinese Government to submit its idea of a "plan". The Minister said that the British Government had asked for "views" and that the Chinese Government had made the reply indicated above but had not submitted any "plan".

There followed some discussion of other matters.

S[TANLEY] K. H[ORNBECK]

893.515/483

Memorandum by the Under Secretary of State (Phillips)

[WASHINGTON,] March 27, 1935.

The Japanese Ambassador, during his call this afternoon, asked me whether we had received any further reply from the British Government with respect to their plan for a joint loan or credit to China. I replied that there had been no further communication, but that I was

rather glad to know, from one or two different sources, that Mr. Hirota on his part seemed to favor the idea. Mr. Saito expressed some doubts as to whether Mr. Hirota did, in fact, favor such a plan since there was nothing very definite as yet before the Japanese Government for its approval. The Ambassador referred to the memorandum of the conversation with the British Government which I had handed to him on March 4th, in which reference was made to the fact that the British Government had been approached on the subject of a loan or credit from Japanese and Chinese sources. This, he said, was incorrect inasmuch as the Japanese had not made any approach to the British Government on this subject. On the contrary, the British Government had made the first approach to Japan.

WILLIAM PHILLIPS

893.515/490 : Telegram

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

NANKING, March 28, 1935—noon.
[Received 2 : 35 p. m.]

58. 1. Following is summary of my despatch dated March 27 to the Legation:

In press despatch dated Peiping March 5 British Minister is quoted as stating *inter alia* that project for joint international credit to China is not effort to prevent friendly understanding between Japan and China and that such understanding essential condition of a loan. American newspaper representative informs me that Suma[78] on March 27 commenting on the statement remarked that the present so-called friendly understanding could not survive the present strain and that Japanese military party is just waiting for some excuse to substitute stern measures toward China for the present friendly policy. Suma said that popular sentiment in China is still strongly anti-Japanese and he predicted that the Minister of Finance would not feel in position to give British Minister concrete proposals for international assistance in accordance with reported expectations of the British Minister.

2. I called on the Minister of Finance March 27, noon, on routine business and was impressed by the fact that contrary to his practice of late he mentioned neither the American silver purchases nor desire for international financial assistance. He spoke at some length and hopefully of his published purpose to issue 100,000,000 Chinese dollars worth of bonds to be handed to Central Bank and Banks of China and of Communication. He said he had issued no new bonds for over 1 year and had retired $10,000,000 of bonds monthly so that new bonds

[78] Yakichiro Suma, Japanese First Secretary of Legation in China at Nanking.

would merely replace retired bonds. He thought this Chinese loan if made would relieve money tightness in Shanghai.

3. If as I infer the interest of the Chinese Government in the project by such international financial assistance is growing less it may be because of published and private information that the Japanese Government will not participate in such joint action. Sent to Legation and Department.

PECK

893.515/504

Memorandum by the Under Secretary of State (Phillips)

[WASHINGTON,] April 3, 1935.

The Japanese Ambassador handed me the accompanying statement [79] which he said he desired to make of record; he reminded me that he had mentioned the matter orally during a recent visit, but added that the communication which he made to me today was merely a matter of form.

The Ambassador asked if there had been any developments with regard to financial assistance to China; he knew that the Japanese Ambassador in London and the Foreign Office had been discussing the matter, but he did not think that they had reached any conclusion. I replied that there had been no developments so far as we had been informed.

WILLIAM PHILLIPS

893.516/426 : Telegram

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

SHANGHAI, April 3, 1935—5 p. m.
[Received April 3—4 : 15 p. m.]

155. Referring to my telegram No. 144, March 29, 1 p. m.[80]

1. At meeting of Board of Bank of China on April 1st T. V. Soong was made chairman of board replacing Li Ming. Standing committee of board thereupon chose Sung Han-Chang, a former Shanghai manager, as general manager, replacing Chang Kia-ngau. On March 30 the shareholders voted to accept yuan 15,000,000 of the Government's yuan 100,000,000 currency loan to increase total capital of

[79] Not printed; Mr. Saito had been instructed to state that the Japanese Government had made no inquiry of the British Government relating to the financial situation in China. (See memorandum by the Under Secretary of State, March 27, p. 564.)

[80] Not printed.

bank to yuan 40,000,000 of which 50% is private and 50% Government. Control of the Bank of China now rests definitely with the Government, the Ministry of Finance having power to designate chairman of board from the standing committee elected by the directors from among themselves. Twelve directors out of 21 are appointed by Ministry of Finance.

2. With the Government now controlling Central Bank and Banks of China and Communications, it doubtless is in position to control Chinese banking and possibly currency and silver. At the end of 1933, these three banks accounted for 70 percent of China's total note issue while on February 8, 1935 they held over 80 percent of the silver in Shanghai Chinese banks which in turn held 88 percent of the total silver in all Shanghai banks.

3. Press this morning reports Soong as saying: "The object of the reshuffling of the directing personnel of the three leading banks is to insure the carrying out of a common policy to assist the market and maintain sound currency. I have the assurance of the Government that there will be no inflation."

CUNNINGHAM

893.515/497 : Telegram

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

WASHINGTON, April 3, 1935—5 p. m.

99. On March 28 Atherton called by request on Sir Warren Fisher of the British Treasury. Fisher stated that the British Government contemplated sending a central bank economic technician to China to be attached to the British Legation; that the British hoped that the American, Japanese and possibly French Governments would do likewise, the idea being that these technicians could in consultation with the Central Bank of China and each other study China's economic and monetary ailments and advise their respective Ministers. He added that political questions would continue to fall solely within the province of the Ministers. The evident undercurrent of Fisher's thought, admitted to Atherton, was that under present circumstances the only way to reduce tension in the Far East is by direct negotiations between China and Japan and that the contribution of the western powers would be something in the nature of a forum to assist in the successful outcome of such negotiations. Fisher said that on March 30 the British Government would send forward an instruction to the British Minister to China to inform the Chinese Government of the British policy in attaching a technical expert to the Legation.

The Department telegraphed London that the question of the American Government likewise sending a bank economic technician

to be attached to the Legation at Peiping will be given consideration; that we would appreciate being informed of the Japanese and French replies, when available; and Department inquired, in connection with the question of direct negotiations between China and Japan, what Fisher's conception was of the nature and functions of a suitable forum. In reply London reports that Fisher believes that if these technical conversations, arising out of China's request last year for a stabilization loan, could be carried out harmoniously under the diplomatic missions, the western powers would have contributed a foundation to what might later prove to be an approach in a less tense atmosphere to outstanding Sino-Japanese questions.

HULL

893.515/497 : Telegram

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

WASHINGTON, April 4, 1935—6 p. m.

78. Your 153, April 1, 6 p. m.[81] With references to British hope that this and other governments will, like the British, send to China an economic technician, it would assist Department, in its present consideration of the matter, to receive replies if they can conveniently be had to questions as follows:

1. Has British Government informed Chinese Government of contemplated appointment of British economic technician and if so what are the views of the Chinese Government in regard thereto?
2. Has British Government definitely selected its representative and if so whom and when will he proceed to China?
3. Are the views of the French and the Japanese Governments as yet available?

HULL

893.515/506 : Telegram

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

SHANGHAI, April 5, 1935—9 a. m.
[Received April 5—8 : 35 a. m.]

Masaji Yoshida, manager of Shanghai branch Mitsubishi Bank, issued statement yesterday through Rengo in regard to financial situation.

1. He recommended for China: "Reliance on self-help instead of foreign loans, moderation in exercise of Government's control over banks and sound money policy".

[81] Not printed.

2. He attributes financial difficulties of China to American silver purchase plan: "I have no doubt that the recent American silver policy is the most important of the factors which have caused the present financial difficulties here. The silver purchase plan is a bald violation of the London Silver Pact of 1933 which deals only with measures designed to prevent a possible fall in the price of silver and aims at its stabilization. Only sophists could insist that the pact provides for the raising of the silver price, otherwise Chinese reservations to the ratifications to the pact mean nothing. The United States is being enabled to carry out this act of violations through the acquiescence of the seven signatory powers other than China which are benefited by it. I firmly believe that out of her own interception [*sic*] or through pressure which it is hoped will be brought to bear by Great Britain and other powers concerned, America will sooner or later moderate her present silver policy thus relieving China of the chief external cause of her financial difficulties."

3. Certain circles see in this statement a desire on the part of Japan to create an impression that the present economic adversity is founded upon American [action] and thus arouse anti-American feeling which will eventually strengthen Japanese position in China.

CUNNINGHAM

893.515/508 : Telegram

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

PEIPING, April 5, 1935—4 p. m.
[Received April 5—9:30 a. m.]

140. Your 99, April 3, 5 p. m. I cannot see how we can separate the appointment of an economic technician such as that proposed by the British from (*a*) an implication that we propose to give China financial assistance; (*b*) a domestic Chinese political situation which was inextricably tied up with the present financial crisis as indicated in my 106, March 4, 4 p. m. In conversation with British Minister upon my return, reported in paragraph 9 of my 106, Department will observe that British Minister expressed the opinion that British action in inviting international discussion of China's financial situation might ward off independent action by Japan.

In that conversation the British Minister made another statement which at the time was not related to the above yet when taken with it would appear to have a bearing upon this proposal. He remarked that there was feeling in England that the only solution for the dangerous world situation offered British industry by competition of Japanese made products, lay in giving Japan a free hand in China as a market. Coupled with this he said that to give Japan a free hand

in China meant sacrificing considerable British interests and that there was difficulty in preparing a retreat for those interests. I infer that his thought that British action in initiating international discussion of China's financial needs would forestall independent action by Japan was inspired by his worry over the threat offered by Japan to British interests in China a worry perhaps also entertained in London. I am, therefore, inclined to see in this British proposal an intention to make more concrete an international interest in China's financial situation for the purpose of preventing independent action by Japan in China.

JOHNSON

893.515/536

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

No. 1365 LONDON, April 12, 1935.
[Received April 19.]

SIR: I have the honor to refer to my telegram No. 147 [*148*], March 28, 7 p. m.,[82] outlining a conversation with Sir Warren Fisher on the suggestion of the British Government for joint consultation between various governments in the matter of the financial situation in China. Fisher has stated very frankly that before the final suggestion was evolved he discussed many angles of it with the Japanese Ambassador on several occasions, so that eventually the idea had Ambassador Matsudaira's full support, and he felt was likely of acceptance by his Government. However, the British suggestion was not formally placed before the Japanese Government until approximately the same time as my telegram referred to above. To date, however, no reply has been received from the Japanese Government and this obviously has caused some concern to Fisher. Ambassador Matsudaira is away, but Fisher stated yesterday that he intended to talk this morning with the Japanese Chargé d'Affaires, Mr. Kato, formerly Counselor of the Japanese Embassy in Washington. This morning Fisher saw Kato and had prepared for him a memorandum, according to Fisher, "in terms of baby language". This memorandum, Fisher explained carefully to the Japanese Chargé d'Affaires, was a personal production of his own, which he gave to Kato in the hope that if there did exist any ambiguity in the mind of the Japanese Government on this British suggestion this document would by full and detailed explanation alleviate it. Subsequently, having seen Kato, Fisher saw Atherton this afternoon and gave him a signed copy of the memorandum hereto attached.[83]

---

[82] *Ante*, p. 95.
[83] Not printed.

. . . . Consequently, while Fisher explained that the British Government was under no illusions as to the probable trend of Japanese thought, British policy was to negotiate for a peaceful solution in the Orient which would leave as undisturbed as possible the development of English trade in China and Asia generally; assure security of British possession in the Far East; affirm the general maintenance of the *status quo* in so far as possible and decrease the possibilities of a *rapprochement* between the Governments of Japan and Germany which might cause considerable embarrassment, not only to England, but to the United States as well. Fisher felt that all this was in line generally with American policy, and that the United States was not prepared any more than England to force initiative in the Far East, and that therefore in the present circumstances the United States Government likewise was seeking a solution in the Far East which maintained the open door as far as possible and did not add another area of conflict to create fresh difficulties in a world where a rebirth of confidence was of primary importance.

The impression left was that Great Britain was quite conscious that some day she would have to meet Japanese policy if it remained unchanged, but she was not ready to face such an issue now. This recent suggestion for joint consultation might thus be considered as one of many palliatives England might propose from time to time, not only for the purpose of temporizing in the Far Eastern situation, but equally in an attempt through an inconspicuous approach to introduce cooperation between the Occident and the Orient, and more especially common consultation between England, the United States, China and Japan. It was thought that this English proposition, if accepted by China and Japan and the United States, might lead gradually from purely technical discussions on Chinese finance to cooperation in larger fields; especially if these preliminary dealings carried on through diplomatic channels were not given great prominence and the results of them tended to a just equilibrium, Japanese opinion might gradually come to be less apprehensive of Western cooperation.

Respectfully yours, For the Ambassador:
RAY ATHERTON
Counselor of Embassy

893.515/527 : Telegram

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

PEIPING, April 13, 1935—3 p. m.
[Received April 13—11:40 a. m.]

149. My 140, April 5, 4 p. m.

1. In conversation with the British Minister today he informed me that he had received while at Nanking a telegram from the Foreign

Office informing him that a financial expert would shortly be appointed by the British Government to be attached to the British Legation here for the purpose of aiding and advising the Minister in the complicated financial questions in China which he would have to be concerned with in coming months and he was instructed to so inform the Chinese Government and his American, Japanese, and French colleagues. The Minister said that the telegram had also stated that the American, Japanese and French Governments were being informed of the proposal of the British Government.

2. The Minister made no mention of any reference in the telegram to consultations with the Central Bank of China or others or to the formation of a technical group in the nature of a forum to assist in direct negotiations between Japan and China, and I inferred that the telegram which he received from the Foreign Office contained only the information described in paragraph 1 above. I summarized to him the information contained in the Department's No. 99 of April 3, 5 p. m.

3. My British colleague stated that Suma, Japanese Counselor of Legation at Nanking, informed him that the Japanese Foreign Office had received a telegram from London, the gist of which apparently was substantially the same as the first paragraph of your 99 of April 3, 5 p. m. and that Suma had stated that the Japanese had rejected the proposal because it did not seem to offer much hope of solving the situation and might give false hope to the Chinese. Cadogan stated that Suma's statement was his first information regarding Sir Warren Fisher's proposal and that the telegram from his Foreign Office was subsequently received and so different in purport that he so informed Suma.

JOHNSON

893.515/529 : Telegram

The Second Secretary of Legation in China (Atcheson) to the Secretary of State

NANKING, April 16, 1935—1 p. m.
[Received April 16—10:55 a. m.]

71. 1. Director of General Affairs Department of Ministry of Finance on whom I called today concerning pending case volunteered statement that Chinese hopes for some action by American Government which would alleviate the consequences resulting from the American silver purchasing program had been blasted by recent lowering of silver seigniorage rate in the United States and that the financial

situation in China was now hopeless. To emphasize his statement he added that every one in the Ministry suffered continuous straits from feverish efforts to find nonexistent solution, and added that financial circles in Shanghai had become increasingly nervous, assets were now completely frozen, and many Chinese were hurriedly buying gold or sterling with the result that Chinese funds were flowing into the foreign banks.

2. Informant also stated that Japanese continued to show much dissatisfaction in connection with question of foreign loan to China and were accusing the Chinese, because of latter's conversations with British and American Governments, of attempting to exclude Japan, although no real progress in the project had been made and, as indicated in my April 15, noon,[84] the British Minister had left Shanghai without having received from the Chinese even any formula for international financial assistance.

ATCHESON

893.515/513 : Telegram

The Second Secretary of Legation in China (Atcheson) to the Secretary of State

NANKING, April 17, 1935—2 p. m.
[Received April 17—11 : 55 a. m.]

74. Paragraph 2, my April 16, 1 p. m. Same official this morning confidentially told foreign newspaper correspondent who has been on friendly terms with him for some years that, while British Minister prior to his recent visit to Nanking which terminated April 9 had shown considerable enthusiasm in regard to question of international loan, the British had now "let China down" in this respect. He said the British Minister's unexpected loss of enthusiasm was due to his or British Foreign Office's interpretation of debate in House of Commons April 3 concerning possible British mediation between China and Japan and remarks made as to the advisability of not antagonizing Japan. The official admitted that the Chinese Government's interest in loan question had also cooled. British Minister intimated that Japanese opposition to the project was partly responsible for the fact that the Chinese Government had not conceived a definite proposal for international financial assistance to lay before the British Minister.

ATCHESON

---

[84] Not printed.

893.515/535 : Telegram

The Second Secretary of Legation in China (Atcheson) to the Secretary of State

NANKING, April 19, 1935—10 a. m.
[Received 10 : 04 a. m.]

77. My 74, April 17, 2 p. m. A Chinese friend of several years standing who has been very frank with me, and who is a councilor of a National Government Ministry and an officer of the Executive Yuan, told me last evening that his understanding was that in January the Japanese had given China 6 months "to make good" and that over 2 months of the period have passed; that Japanese opposition to an international loan has prevented the Chinese Government from pressing for international financial assistance and from considering Japanese aid because the latter would mean acceptance of Japanese military and financial advisers and other conditions. He said also that in his opinion the Chinese Government would be forced to adopt some form of currency inflation irrespective of developments in the United States because the Chinese Government's internal debts were greater than the external and were increasing.

ATCHESON

893.515/516 : Telegram

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

WASHINGTON, April 20, 1935—5 p.m.

87. Your 165, April 8, 6 p. m.,[85] and previous.

1. The Treasury Department of the American Government has recently sent abroad three representatives in the capacity of economic (especially monetary and financial) observers. One of these, Professor J. Lossing Buck, whose home is in Nanking, China, has been sent to China. The sending of Professor Buck to China is in no way connected with or occasioned by the suggestion made to us by the British Government per Sir Warren Fisher that the British, the American, the Japanese, and possibly the French Governments send financial experts to China in connection with the question of cooperative financial assistance to China.

In order that there may be no misunderstanding, please inform Foreign Office of the above.

2. In view of inconclusive character of information thus far received and of some inconsistencies between reports received from London and reports received from sources in China, Department desires that you

[85] Not printed.

confer with Foreign Office and give Department the benefit of such replies as you may be able to make to questions as follows:

(*a*) Is the British Government sending a financial expert to be attached to the British Legation in Peiping?
(*b*) Have other Governments, especially the Japanese Government, replied, favorably or unfavorably, to the British Government's suggestion that several governments send financial experts to China?
(*c*) What replies have been received by the British Government and what is the present thought of the British Government in connection with the broad question of financial assistance to China by a process of cooperation among the powers most concerned?

You may say that we would appreciate having as definite information as the British Government may feel it appropriate and possible for it to give on these points, together with any comment or suggestions which the British Government may feel disposed in connection therewith to make. You should also say that Department is seeking merely a clear understanding, with as complete orientation as possible, of the situation as it now exists.

HULL

893.515/546 : Telegram

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

LONDON, April 25, 1935—noon.
[Received April 25—7 : 32 a. m.]

186. Paragraph 1 of the Department's 87, April 20, 5 p. m., was orally conveyed to Chief of Far Eastern Division, Foreign Office, who duly expressed his appreciation.

As regards paragraph 2 (*a*) Foreign Office stated that when the selection of a financial expert, as explained by Fisher to Atherton, is determined he will be attached to the British Legation in Peiping. Paragraph (*b*) Foreign Office has received no reply from Japanese or any other Government. Paragraph (*c*) Foreign Office stated that this question "is being handled informally by Fisher and not in the usual way" but the position of the British Government is clearly set forth in the note written by Fisher [86] (forwarded with Embassy's despatch No. 1365, April 12) copies of which have been handed to Japanese and French representatives.

BINGHAM

---

[86] Not printed.

893.515/547

Memorandum by the Secretary of State

[WASHINGTON,] April 25, 1935.

The Chinese Minister called and stated that he had received a communication from his government, following the recent increase in the price of silver by this government, in which he was requested to see me and express the concern of his government about the increased silver price and its effect upon the Chinese economic and financial situation. He added that of course his government had not then learned of the latest increase in the price of silver by Presidential proclamation last evening.[87] He stated also that his government desired to remind this government of its statement, made in a communication to the Chinese Government during last October,[88] to the effect that in administering our silver Act we would keep in mind the Chinese financial situation and proceed with a view to causing the minimum of unsatisfactory reactions upon Chinese financial, fiscal, and general economic affairs.

I repeated to him our deep interest in the welfare of the people of China and our disposition to cooperate in every feasible way that might be mutually helpful, and stated that the minimum of inconvenience to the people of China would be contemplated by any and every governmental policy or measure of ours.

C[ORDELL] H[ULL]

800.51/1106

Memorandum by the Secretary of State of a Conversation With the Chinese Minister (Sze)

[WASHINGTON,] April 25, 1935.

During his call the Minister said that he had been instructed to come to see me and express special concern at the recent Borah Resolution[89] which would prohibit any sort of loan to any part of the world outside the Western Hemisphere, including China. He added that his Government was seeking to ascertain how far the British Government would be willing to go, and that then his Government would specify in detail just what its needs and desires in a financial and economic way might seem to be.

I inquired what the attitude of the Japanese Government was.

He replied that he had heard of no reaction at all on the part of that government.

---

[87] Proclamation No. 2125, April 24, 1935, 49 Stat. 3445.

[88] Note of October 12, 1934, to the Chinese Minister, *Foreign Relations*, 1934, vol. III, p. 449.

[89] Senate Joint Resolution 103, introduced April 18, 1935; see *Congressional Record*, vol. 79, pt. 6, p. 5921.

I suggested that the Minister need not become seriously concerned about the Borah Resolution so long as it was as broad in its provisions as at present, according to my best judgment. I added that it would not permit a citizen of the United States to sell a bill of goods on 30 days' credit to any part of the world outside this hemisphere, and that I could not believe Congress would think of going so far, which would mean practically the destruction of all the international trade we now had and in addition that which we expected to have. I concluded with the statement that I had heard nothing directly about the Borah Resolution or what the real intentions were of the dominant elements in Congress relative to its disposition.[90]

C[ORDELL] H[ULL]

893.515/552 : Telegram

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

NANKING, May 1, 1935—noon.
[Received May 1—7:55 a. m.]

88. Department's telegram No. 99, April 3, 5 p. m., and subsequent telegrams regarding British economic attaché. T. V. Soong requested my interest in obtaining appointment of a similar economic attaché expressing the opinion that presence of such attaché in China would facilitate discussion leading to definite proposal for international financial assistance to China. I stated to Mr. Soong that I had not been convinced that the assignment of such an attaché was necessary but that I would inform you of his interest. Soong asked about present state of British suggestion of international financial assistance and I said that I believed governments concerned were waiting concrete proposal from Chinese side. I inferred Chinese have as yet no concrete proposal to make but that Soong's interest in the matter of such financial assistance continues.

In a conversation which I had with Suma yesterday the latter stated emphatically that Japan was not interested in direct financial assistance to China believing that any loan at the present time along lines of administrative loan of 1912 would be of no value. He was equally emphatic regarding any loan for purposes of currency reform, expressing the opinion that under present conditions China was not in position to make currency reform effective.

JOHNSON

---

[90] The resolution was sent to the Committee on Foreign Relations.

893.515/559

Memorandum by the Consul at Hankow (Stanton), Temporarily in Washington

[WASHINGTON,] May 3, 1935.

Of the many problems confronting us in our relations with China and the Far East, it is believed that our present silver policy constitutes a development charged with serious consequences and that, therefore, it is of immediate and pressing importance.

It is difficult to escape the feeling that the continuation of this policy will set in motion, in the not distant future, a train of events which may prove to be disastrous alike to our trade with and traditional friendship for China and which may jeopardize our position in the Far East. It seems undeniable that this policy is rapidly draining from Shanghai the stocks of silver which have accumulated in that port over a period of years and that it is becoming increasingly difficult for the National Government to raise funds from this heretofore fairly dependable source. The continuation or the fall of the Government being so intimately related to the facilities heretofore available at Shanghai for the financing of government loans, it would seem that the drying up of these facilities would almost inevitably precipitate either the collapse of the Government and economic and political chaos or a speedy acceptance by China of Japanese demands. Developments of the last few months indicate that the latter course is the more likely. In either contingency it may be expected that Chinese official and commercial circles will attribute the plight of the country to the silver policy of the United States. It is also to be anticipated that there will be extensive and carefully prepared publicity, designed to divert attention from the Chinese Government's acquiescence to Japanese demands, which will attribute all ills and disasters to our silver policy. That such publicity will be anti-American in tenor and that it will conceivably result in an anti-American movement of unpredictable proportions may also be anticipated in the light of the history of similar movements in China. That the Japanese will utilize to the full the advantage which such a situation will give them also may be taken for granted.

In short, it appears highly probable that a continuation of our present silver policy will so weaken China politically and economically that she will become an easy prey to Japanese ambitions or be forced directly and speedily to accept Japanese domination. It is obvious that such developments will seriously affect if not permanently injure our interests in China and perhaps destroy the good will and friendship which we have so carefully cultivated with that country. That our relations with Japan may also enter an atmosphere charged with a dangerous tenseness is by no means inconceivable.

It has been axiomatic with us that our interests and China's interests can best be served by the maintenance of a stable government in that country. In complete disregard of this axiom are we not rapidly undermining such stability as exists in that country?

893.48/941

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

No. 757 WASHINGTON, May 6, 1935.

SIR: There are enclosed copies of letters [91] exchanged between the American Cotton Cooperative Association and the Department in regard to 102,000 bales of American raw cotton, stated to be in Shanghai, which had previously been purchased in the United States by the Chinese Government under the terms of the wheat and cotton credit extended on May 29, 1933, to the Chinese Government by the Reconstruction Finance Corporation, and which had been purchased by the Association from the Chinese Government. The Association affirms that Chinese cotton mills controlled by Japanese capital "were instructed to boycott the cotton financed by the Reconstruction Finance Corporation and purchased by the Chinese Government", and that the refusal of such mills to purchase the cotton under reference is detrimental to the consumption in China of American cotton. The Association is inclined to believe that the Japanese-controlled mills in China "would like to see the boycott lifted", and it suggests that if such assumption is correct a friendly approach to the Japanese Government might at this time meet with a cordial response.

In view of the character of the references by officials of the Japanese Government and by the Japanese press to the wheat and cotton credit above mentioned, the Department doubts whether an approach by officers of this Government to the Japanese Government would result in removal of any interdiction which may have been laid down in regard to purchase by Japanese interests of such cotton. However, there have been noted press despatches from Shanghai to the effect that the Commercial Attaché of the Japanese Legation in China entertains the view that Japanese spinning interests should be permitted to purchase the cotton under reference.

Any information in regard to the present attitude of the Japanese Government which you may be able to obtain without making inquiry in Japanese official quarters, and your comment in regard to this matter, would be of interest to the Department.

Very truly yours, For the Secretary of State:
WILLIAM PHILLIPS

---

[91] None printed.

893.515/560 : Telegram

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

WASHINGTON, May 10, 1935—5 p. m.

93. For Professor J. L. Buck from the Treasury. It will be most useful for you to confer with Chinese Government officials and others with a view to informing yourself most fully as to existing conditions and judgments in the economic field, but please avoid such discussions of policy as might be construed to be negotiations or representations of American official views.

Please show this telegram to Nicholson, Treasury Attaché.

HULL

661.9331/24

Memorandum by the Minister in China (Johnson) [92] *of a Conversation With the American Treasury Representative in China (Buck)*

NANKING, May 13, 1935.

I went this morning to see Dr. Buck who has just returned to Nanking. He informed me that he had come out at the direction of the Treasury Department to bring up to date his information in regard to financial and economic conditions in China and that he expected to be in China about a month but thought that he might extend this stay somewhat. He said that it was his purpose shortly to visit North China and Manchuria and later to go to South China, particularly to Canton.

I told Dr. Buck that the Department had instructed me in regard to his coming and that his appointment was to be confused in no way with the British suggestion for the stationing of an economic expert in China. I told him of my conversations recently with Dr. H. H. Kung and Mr. T. V. Soong and said that both gentlemen appear to continue to be interested in the possibilities of obtaining a loan from foreign countries. I said that T. V. Soong, for instance, had evinced a continued interest in the possibility of international financial assistance and had asked whether the American Treasury Department intended to send to China an economic expert such as the British were sending. I suggested to Dr. Buck that he might have to be on his guard in this connection in any conversations that he might have with T. V. Soong. I said that I saw no objections whatever to his discussing conditions in China, for such discussions would be necessary to elicit the kind of facts he wanted, but that I thought he must be

[92] Copy transmitted to the Department by the Minister in China in his despatch No. 3596, June 4; received June 9.

careful not to say anything that might be interpreted by T. V. Soong or anyone else as committing himself to any proposal that they might wish to discuss. I thought that he should listen to any proposal that might come to him and undertake to communicate it by due and proper channels to Washington and that this would be the time when he and I would have to get together and cooperate. I told him that I would be glad at any time to assist him and that he would be able to communicate with me through any of the consulates that he might have contact with during his travels. I told him that for my part, although I could not prove this assertion, I could not rid myself of the feeling that in the cases of T. V. Soong and H. H. Kung they were too deeply interested personally in the real estate situation in Shanghai to be able to give unbiased consideration to the national problem with which China was faced.

Dr. Buck agreed with this and commented on the fact that the Chinese appeared to be extremely timid about the whole matter. I stated that it was extremely difficult for me to understand why, when I knew that the Government was able to borrow money domestically for administrative and military purposes, it was not able to adopt some currency policy and borrow domestically the money necessary to put such a currency policy into operation. I said that I thought this was the fundamental reason why it was so difficult for the foreign Powers to do anything. Unable to help themselves, the Chinese were apparently concentrating upon help from the outside. I could see no chance of help from the outside when the Chinese lacked the confidence in themselves necessary to the adoption and putting into effect of some plan. I said that the mere adoption and putting into effect of a plan would do more to make it possible for help from the outside to be brought in than anything I knew. I pointed out that up until the Chinese took control of the three Chinese banks of issue at Shanghai and put them under the supervision of the Central Bank the Chinese Government had not really had control over any appreciable amount of silver. I said that I felt that the Government was now in a position, with actual silver in its pocket, to start some plan that would bring outside financial aid to its help.

I pointed out that I had attempted, in conversing with the Chinese on this subject of silver and the policy of the United States Government in regard to silver, to make it clear that the United States, like all other Western countries, was deeply involved in a problem of domestic currency reform and that it was difficult for me to believe that the Chinese could expect any change in the American Government's policy, which, after all, was dictated by the Congress and not by the Administration, until the domestic problem had been solved or natural economic causes had asserted themselves and forced a change.

NELSON TRUSLER JOHNSON

702998—53——44

893.50A/127 : Telegram

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

NANKING, May 15, 1935—noon.
[Received May 15—4 : 52 a. m.]

101. Reliably reported that Haas [93] of League staff here is planning, as maneuver against possible replacement of League experts by Japanese advisers, the reorganization of League technical activities in China including the assignment of more competent League personnel here to be under the direction of a chief expert. It is stated that Chiang Kai-shek has not so far been persuaded to more than a lukewarm attitude but Soong and Kung are said to have agreed to the scheme.

For the Minister:
ATCHESON

893.515/563 : Telegram

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

NANKING, May 15, 1935—2 p. m.
[Received May 15—6 : 58 a. m.]

103. Reference my telegram No. 41, February 27, noon, and paragraph 1 of Department's telegram No. 80, March 18, 7 p. m., I have received letter from Kung which, after referring to arrangement described in Department's telegram, states:

"In accordance with this arrangement the Central Bank of China has duly delivered 14,250,000 ounces, this quantity having been purchased in London. However, the sudden and considerable increase in the price of silver in the last few weeks means that the requisite quantity can not [be] purchased abroad and delivered except at a prohibitive cost; and the monetary situation in China continues to be so delicate that for the present it is entirely impracticable to consider exportation of silver from China.

In these circumstances I should greatly appreciate if you would inquire by telegraph whether the Treasury, in order to meet this special situation, would be willing either to cancel the balance of the contract, or, if for any reason that is impracticable, to accord to China the right of further postponing delivery."

JOHNSON

[93] Robert Haas, director of the Communications and Transit Section of the League of Nations Secretariat.

893.77/3002

Memorandum by the Minister in China (Johnson) [94]

NANKING, May 15, 1935.

Conversation with: Mr. W. H. Plant, Shanghai Manager of the United States Steel Products Company, and Mr. John S. Campbell, Vice President of the Wilcox-Hayes Company, Portland, Oregon

Mr. Plant and Mr. Campbell, the latter a member of the American Economic Mission to China, called and Mr. Atcheson arranged for them to get in touch with the Ministry of Railways as they both wished to make inquiry regarding any concrete proposals which American business might take advantage of in the matter of railway construction in China.

Before keeping their appointment with the Ministry of Railways I had a conversation in the afternoon with these two gentlemen and they told me that they were interested in projects for railway construction. Mr. Campbell stated that Mr. Peek [95] of the Export Bank had said to them that if they could bring back any concrete proposal he would like to give it consideration. Both gentlemen stated that they were aware that the Ministry of Railways had recently granted a number of contracts to German and Austrian firms for the supply of railway materials. They wondered if I had any information as to new railway proposals.

I told Mr. Plant and Mr. Campbell that I had no information at the moment but I knew that the Ministry of Railways was engaged in constructing a railway to connect Nanking with Wuhu which I understood would connect eventually with the Province of Fukien and the port of Foochow; I also knew that a railway was under construction from Hangchow which was intended to connect with Nanchang in the Province of Kiangsi and eventually with Changsha in the Province of Hunan. I stated that I was not aware that the Ministry of Railways was actively seeking foreign credits in this connection at the present time although I knew of the German interest in the Hangchow-Nanchang Railway.

I asked Mr. Campbell if he had any information as to the nature of the credits given by the Germans and he stated that it was his information that credit guaranteed by the German Government and secured by the provincial revenues of the provinces crossed and further guaranteed by the Chinese Government for six years were involved.

[94] Copy transmitted to the Department by the Minister in China in his unnumbered despatch of May 23; received June 15.

[95] George Nelson Peek, president of the Export-Import Bank.

I stated that at the present time I had considerable doubts as to the further ability of the Chinese Government or the Chinese provincial governments making any effective guarantees for repayments of credits. I pointed out that both Central and Provincial Governments in China appeared to be lacking in funds and that in prospect the situation did not look promising as the present world price of silver threatened to bring about a deflation of prices in China with consequent depression throughout the country that would last for some time and might bring on a collapse of Chinese finances not unlike that which characterized American finances and credit in 1932. I stated that the Chinese Government, unlike the American Government, was not likely to have the power to control the situation as had been done by the Administration when it came into power in 1933 and therefore the future looked extremely uncertain.

I told Mr. Campbell that I had been approached by a responsible Chinese for credits regarding the establishment of a large steel plant near Nanking but I did not believe that responsible persons at home were interested in such an enterprise at this time in view of the failure of similar enterprises in the past. I said that the Chinese seemed to be unwilling or unable to move to Nanking blast furnaces and rolling mills already in China and now inactive for the purpose of making a beginning even on a small scale, thus proving the existence of a market for steel products made in China. Neither Mr. Campbell nor Mr. Plant seemed to be interested in such a proposal.

NELSON TRUSLER JOHNSON

893.515/569a : Telegram

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

WASHINGTON, May 21, 1935—5 p. m.

135. Press of May 20 contains news items under Nanking date line of May 19 to the effect that Dr. Ma Yin-chu [96] is urging, as the most effective means of combating the American silver purchasing policy, a Chinese boycott of American goods.

Legation and consulates should follow situation closely and report promptly by telegram to Department any manifestations of anti-American feeling growing out of the American silver program and particularly any developments tending toward a boycott of American goods.

HULL

---

[96] Chinese economist and member of Legislative Yuan since 1928.

893.515/569 : Telegram

The Secretary of State to the Consul at Nanking (Atcheson)

WASHINGTON, May 22, 1935—7 p. m.

39. For the Minister. Your 103, May 15, 2 p. m. On May 17 department forwarded to Treasury Department copy of your telegram under reference. Treasury Department, in letter of May 20, replies in part as follows:

"The records of this Department indicate that of the total of 19,000,000 ounces of silver originally purchased, the amount of 14,100,000 ounces has already been delivered, leaving a balance of 4,900,000 ounces, on which a postponement of delivery until May, 1935, was previously granted.

Although it would be impracticable to modify the contract with the Chinese Government to the extent of cancelling its obligation to deliver the balance of the silver, it is agreeable to postpone until the end of July, 1935, the time within which delivery of this silver may be made."

Please incorporate the substance of the foregoing in your reply to letter from Kung referred to in your telegram under reference.

HULL

893.48/946 : Telegram

The Secretary of State to the Consul at Nanking (Atcheson)

WASHINGTON, May 23, 1935—7 p. m.

40. Reference your telegram of January 24, 1934, 4 p.m.,[97] to Legation and previous correspondence in regard to the publication of the terms of the cotton and wheat credit agreement.

As the Reconstruction Finance Corporation desires to make public a statement in regard to the credit under reference and as Dr. Wei, having returned to China, is no longer available for consultation, please ascertain from the appropriate Chinese authorities whether there is objection to the publication by the Corporation of a statement as follows:[98]

"The terms of the agreement of May 29, 1933 between the Reconstruction Finance Corporation and The National Government of the Republic of China relative to the extension by the Corporation of a credit for the purchase of cotton and wheat were made available to the public today by Jesse H. Jones, Chairman of the Reconstruction Finance Corporation, with the approval of the Chinese Government.

[97] Not printed.

[98] In telegram No. 135, June 4, 11 a. m., the Minister in China reported that the Chinese Minister of Finance saw no objection to the publication of the statement (893.48/948), and it was released to the press by the Reconstruction Finance Corporation on June 17 (893.48/949).

By the terms of this agreement the Corporation agreed to extend to China a credit of $50,000,000, of which approximately $40,000,000 was to be used for the purchase of cotton in the United States and $10,000,000 for the purchase of wheat, including flour. Later the amount of the commitment was reduced to $20,000,000, of which $10,000,000 has been expended for the purchase of cotton, $6,000,000 for the purchase of wheat and $1,105,385.80 for the purchase of flour.

China named Dr. W. P. Wei as Purchasing Agent for the Government and Messrs. Charles L. Tarver, Dallas, Texas, and J. J. Lavin, Portland, Oregon, to be in charge of operations in connection with the purchasing and shipping of cotton and wheat, respectively. Recently the balance of the cotton was shipped to China, which concluded operations under the agreement, and Dr. Wei has now closed his offices and returned to China.

Under the terms of the agreement advances were made against the delivery of shipping documents evidencing cotton, wheat or flour c. i. f. paid to a port in China. Advances were made on the basis of the F. O. B. cost to China at the port of export. Provision was later made for the storing of the commodities for a limited time and the making of advances against warehouse receipts, but this was only utilized in the case of part of the cotton.

Advances were evidenced by notes of China payable on or before 3 years from the date thereof, with the understanding that China would probably request an extension for an additional 2 years on any balance then remaining unpaid. All notes carried interest at the rate of 5 per cent per annum payable semi-annually.

The agreement further provided for instalment payments on the notes. Twenty-five per cent of the amount advanced for the purchase of cotton was due within 12 months from the respective dates of the notes. Under this provision approximately $2,241,013.21 has been repaid to May 14, 1935. An additional 10 per cent is due the second year and 15 per cent the third year, provided the extension is granted for the further 2 year period. In the event of such an extension 20 per cent is due the fourth year and 30 per cent the fifth year. All funds advanced for the purchase of wheat and flour are due the third year unless the extension is granted, in which case the payments are 25 per cent for the fourth year and 75 per cent for the fifth year.

As security for the credit the Corporation was granted a first charge by China on its consolidated taxes, consisting of the rolled tobacco tax, the flour tax, the cotton yarn tax, match tax, cement tax, tobacco and wine tax and the stamp tax (excepting that the charge on the tobacco and wine tax is a junior charge), together with the second charge on its 5 per cent Flood Relief Customs Surtax, subject only to the payments required to service and retire the indebtedness due the Grain Stabilization Corporation until such indebtedness is paid in full.

Insurance coverage on the commodities shipped was placed with American insurance companies and approximately 50 per cent of the commodities were transported in United States flag vessels in accordance with the terms of the agreement.

Mr. Jones further stated that any one interested in obtaining further information relating to the details of the agreement should communicate with the Corporation."

Please report promptly by naval radio.

HULL

893.515/570 : Telegram

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

SHANGHAI, May 24, 1935—noon.
[Received May 24—10:49 a. m.]

254. 1. Shanghai situation. Directors American Oriental Banking Corporation, American Oriental Finance Corporation and Asia Realty Company, closely allied American concerns, closed business this morning and will request United States Court for China to appoint liquidators. Action has thus far not caused much difficulty in banking circles but may as news permeates. National Industrial Bank (Chinese) suffering mild run. Official of Central Bank of China states that his bank supporting National Industrial Bank. Foreign banks not experiencing runs. Banking circles are somewhat nervous. Possibilities of situation briefly outlined in my despatch 9941 of March 13, 1935 and its enclosure No. 2.[99]

2. I understand China Banks are placing difficulties in way of persons wishing to convert notes into hard silver in quantities which might indicate purpose as smuggling. Foreign banks state they will pay silver against deposits at present, if demanded.

Repeated to the Legation.

CUNNINGHAM

893.515/573 : Telegram

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

SHANGHAI, May 24, 1935—4 p. m.
[Received May 26—6:43 a. m.]

255. Referring to my 254, May 24, noon. It is too early to state the far reaching effects of the failure of the American Oriental Bank and associate interests. It was the depository of a very large per cent of the American missionaries, the educational and eleemosynary

[99] Neither printed.

institutions, and a substantial but smaller per cent of the small and medium salaried Americans. These are classes that must suffer severely by the suspension of business. No failure could affect such a large number of the American community as has that of the bank and the Asia Realty. American prestige in Shanghai must suffer tremendously in the failure of one of the three outstanding local American groups of interest. The knowledge that will eventually become public, that the bank is a state institution and that these are subject to very little government supervision, must increase the loss of confidence that the public has in American institutions. The present time is most inopportune since severe criticism is being directed toward the United States and the claim is being made by many that America's silver policy is to a large extent responsible for the financial stringency in Shanghai. Competing institutions of other nationalities will not be slow to take advantage of this suspension of business. Repeated to the Legation.

CUNNINGHAM

893.515/575 : Telegram

The Consul at Tsingtao (Sokobin) to the Secretary of State

TSINGTAO, May 27, 1935—4 p. m.
[Received May 27—10 : 42 a. m.]

Referring to Department's telegram number 135, May 21, 5 p. m., not the slightest sign of boycott has been observed in Tsingtao nor have there been noted any indications that such a boycott is contemplated. Likewise no manifestations of anti-American feeling for any reason have been shown.

American financial situation here is indeed difficult but in responsible and enlightened circles there is no special disposition to believe reasons for difficulties lie entirely or primarily in our silver program.

It appears to the Consulate most significant that the Chinese bank which failed here last week as reported by telegraph to the Department on May 23 [*24*], 4 p. m.[1] was heavily involved in real estate enterprises and real estate loans just as the American Oriental Bank in Shanghai was likewise closely affiliated with a real estate company and I venture to offer personal opinion that real estate slump particularly in Shanghai is playing greater part in financial crisis of China than is our silver program.

SOKOBIN

---

[1] Not printed.

893.515/574 : Telegram

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

PEIPING, May 27, 1935—5 p. m.
[Received May 27—10 a. m.]

220. Department's 135, May 21, 5 p. m. Following telegram has been received from the Consulate at Tsinanfu:

"May 27, 9 a. m. Resentment towards American silver program has appeared here in mild form. Developments tending towards boycott American goods have not yet appeared and will not likely appear unless sanctioned by provincial authorities who in such matters would likely follow the advice or lead of the Nanking authorities."

To Nanking and Shanghai by mail.

For the Minister:
LOCKHART

893.515/580 : Telegram

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

SHANGHAI, May 28, 1935—4 p. m.
[Received May 29—9 : 20 a. m.]

262. Referring to my telegram No. 255, May 24, 4 p. m.

1. On May 24th F. J. Raven, President of the American Oriental Banking Corporation, the American Oriental Finance Corporation and the Raven Trust Company Federal Incorporated, U. S. A., which have petitioned United States Court for China for appointment of liquidators gave to press following interview which he has verbally confirmed to member of my staff:

"The reasons stated for the liquidation of the American Oriental Banking Corporation apply as well to the other two companies. In a word the situation can be attributed to the American silver purchasing plan which has drained silver from the country. There is no silver to carry on."

2. On May 26, Henchman, Shanghai manager of the Hong Kong and Shanghai Bank, approached Mackay, Shanghai manager of the National City Bank, and Schumaker, Shanghai manager of Chase Bank, and called them to task for not supporting American banking institutions in Shanghai; thus in my opinion Mr. Henchman has put himself on record and nicely set the stage to blame American Government for any banking or financial crisis which may arise in Shanghai.

3. The Shun Shih News Agency (Chinese) today reports that Minister of Finance Kung yesterday discussed with T. V. Soong, chairman of Bank of China, and other bankers the present financial situation including the closure of the American Oriental Banking Corporation and the Minghwa Commercial and Savings Bank. The Shanghai Press reports that the director of the Minghwa may be detained by the Chinese authorities pending outcome of investigation of bank.

4. It appears to me that there is danger that any severe collapse in banking and real estate in Shanghai may be laid to the doors of (1) the American and other foreign banks which have in the past year shipped silver from Shanghai and (2) the American silver policy as the primary cause.

5. News articles and editorials which have thus far appeared in Shanghai have been of quieting nature except for statement quoted in paragraph 1 in regard to the so-called Raven interests.

Repeated to the Legation.

CUNNINGHAM

893.515/569 : Telegram

The Secretary of State to the Consul at Nanking (Atcheson)

WASHINGTON, May 29, 1935—7 p. m.

43. For the Minister. Your 103, May 15, 2 p. m., and Department's 39, May 22, 7 p. m. Treasury Department requests information whether Chinese Government desires to avail itself of the offer outlined in the Department's telegram under reference.

Please report promptly by naval radio.

HULL

893.515/586 : Telegram

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

SHANGHAI, May 31, 1935—8 p. m.
[Received May 31—1:10 p. m.]

273. Have seen Kung this afternoon at the Minister's instruction. Kung informed me that he desired to accept American Government's proposal regarding payment silver, writing to that effect tomorrow morning.

Repeated to the Legation at Nanking.

CUNNINGHAM

893.515/606

The British Embassy to the Department of State

AIDE-MÉMOIRE

As the United States Government are aware His Majesty's Government in the United Kingdom have for some time past had under consideration the question of appointing a financial expert to assist His Majesty's Representative in China, in view of the financial difficulties at present being experienced by the Chinese Government.

His Majesty's Government have now selected Sir Frederick Leith-Ross, K. C. B., K. C. M. G., Chief Economic Adviser to His Majesty's Government to be attached to His Majesty's Ambassador at Peking as temporary financial adviser. Sir Frederick will leave England at the beginning of August and will be accompanied by Mr. E. Hall Patch, who will act as his assistant.

The news of this appointment is being communicated to the London press on the evening of Saturday, June 8th, for publication on Sunday, June 9th, and His Majesty's Government request that this information be regarded as confidential until the news has appeared in the English press.

His Majesty's Ambassador has also been instructed to express the hope of His Majesty's Government that the United States Government will take similar action as to the appointment of an expert, and should they do so, would be glad to know as early as possible the name of the person who may be selected.

WASHINGTON, June 7, 1935.

893.515/608 : Telegram

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

PEIPING, June 11, 1935—6 p. m.
[Received June 11—4 : 14 p. m.]

262. Your 155, June 8, 4 p. m.[2] In conversation with British Minister today he referred to appointment of Ross and stated that character and position of Balfour [*Ross*] indicated importance which British Government attaches to the matter. British Minister stated that he had informed Soong and the Government at Nanking; that Soong had replied that appointment was too late. British Minister expressed the feeling, however, that [since?] Chinese but for eyeing

[2] Not printed; this telegram repeated substance of British *Aide-Mémoire* of June 7, *supra*, and asked for any comments the Minister in China might wish to make (893.515/606).

[*have succeeded in carrying*] themselves through dragon boat festival settlement they would be able to carry on for another 2 or 3 months and said that he felt sure that arrival of advisers would be helpful as they could assess local situation and be available to confer among themselves and with Chinese should a plan offer.

British Minister stated that Ross could not arrive before August and that his Government hoped that American Government might be able to send similar expert to be available on the spot should opportunity offer to work out some plan for rehabilitation of the Chinese Government.

The fact that British Government is sending to China a man of the caliber of Ross indicates to me that British Government are seriously concerned about financial situation in China and perhaps its effect on British interests generally. British Minister stated that he had seemingly very little of British Treasury's [plans?] from London.

I find myself still of the opinion expressed in my cipher telegram 140, April 5, 4 p. m. A Havas despatch draws attention to Ross appointment and connects it with the consortium as an indication that the consortium powers are prepared to take some financial action looking to China's relief. Newspaper correspondents visiting Legation today are [interested in the] significance of British move and our attitude but I have made no comment. I apprehend that there will be reactions from Japan shortly.

I am persuaded from statements made to me during my visit in Nanking and Shanghai that Chinese Government is somewhat desperate over financial situation and that we have perhaps already arrived at the point where China's paper currency may be considered irremediable for I do not believe that Chinese Government possesses sufficient coin or bullion reserve to redeem. In my estimation it is therefore only a matter of time and that a very short one before Chinese Government will have to relinquish present plan of maintaining Chinese dollar at approximately 41. I do not know what importance to attach to reported statement of Soong to British Minister that appointment of technical experts was now too late. It may have some relation either to the Sino-Japanese situation or to the hopelessness of China's financial position.

I agree with British Minister that if powers are prepared to consider China's plan or any plan that may be worked out for financial assistance the presence in China of responsible experts of the type of Ross would be advisable but I still think that it would be useless to send such a delegate unless there is some hope that the presence of such delegates will lead to something concrete and I confess not to be able to foresee that contingency at present.

We should not, of course, forget in this matter that the British are in a sense forcing our hand and it is assumed that the Department will see to it that we are not saddled with responsibility for failure merely because we have no one present capable of examining the situation. The American Government is already in an unfavorable position because of common belief that our silver policy has adversely affected the whole financial establishment in China.

Repeated to Tokyo by mail.

JOHNSON

893.515/606

The Department of State to the British Embassy

MEMORANDUM

With reference to the British Embassy's confidential *aide-mémoire* of June 7, 1935, it is noted that the British Government has selected Sir Frederick Leith-Ross, K. C. B., K. C. M. G., Chief Economic Adviser to the British Government, to be attached to the British Ambassador at Peiping as temporary financial adviser and that Sir Frederick, accompanied by his assistant, Mr. E. Hall Patch, will leave England at the beginning of August.

With reference to the hope of the British Government that the American Government will take similar action with regard to the appointment of a financial expert, it may be stated that this subject is continuing to receive consideration by the American Government and that, upon completion of such consideration, the American Government will expect to inform the British Government of the decision reached.

WASHINGTON, June 14, 1935.

893.515/623 : Telegram

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

SHANGHAI, June 18, 1935—11 a. m.
[Received 11 : 45 a. m.]

320. For Secretary Morgenthau.

"Secretary Morgenthau, Washington. Conditions interior much better than 1 year ago. Silver policy not responsible for situation here which is due entirely to real estate inflation and over speculation. Organized propaganda by these speculators strong against silver which has not created situation or responsible. Apparently heavy

foreign exchange purchases by leading officials and in one case estimated foreign balance 6,000,000 sterling. Moffett."[4]

CUNNINGHAM

893.515/625 : Telegram

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

PEIPING, June 19, 1935—2 p. m.
[Received June 19—7 : 28 a. m.]

295. Department's 135, May 21, 5 p. m. Information thus far obtained by the Legation indicates that there is no appreciable tendency towards a boycott of American goods.[5] An undercurrent of resentment persists in some circles regarding the silver policy of the American Government and this provides a ready vehicle for the need to fix the blame somewhere for the existing economic and financial depression in China. Nevertheless despite the increasing seriousness of the financial criticisms of the American silver purchase policy [criticisms?] seem now to be subordinated more definitely than before to an appreciation of the significance of general economic factors.

It is believed that an anti-American boycott would not develop unless official support were extended to such a movement and that such action is unlikely in view of the involved political situation in the Far East as well as for other reasons.

Repeated to Nanking and Shanghai.

JOHNSON

893.515/638 : Telegram

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

LONDON, June 25, 1935—2 p. m.
[Received June 25—9 : 25 a. m.]

283. My 266, June 14, 1 p. m.[6] Foreign Secretary stated in the House of Commons last evening:

"As soon as the Chinese Government had been informed of the appointment of Sir Frederick Leith-Ross His Majesty's Government communicated with the United States, French, Japanese and Italian

[4] Department's telegram No. 141, June 29, 11 a. m., to the Consul General at Shanghai: "From Secretary Morgenthau for Moffett. Suggest you give out interview in Shanghai along lines of information outlined in your cable of June 18." (893.515/623)

[5] Separate reports to the Department from Hankow, June 3, 4 p. m. (893.515/597); Yunnanfu, June 11, 9 a. m. (893.515/605); Shanghai, June 21, 11 a. m. (893.515/631) stated, in effect, that there were no serious manifestations of anti-American feeling or tendency toward a boycott of American goods.

[6] Not printed.

Governments and expressed their hope that these Governments would take similar action. I have not as yet received any intimation of their intentions in this respect."

BINGHAM

893.515/640 : Telegram

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

LONDON, June 26, 1935—1 p. m.
[Received June 26—9:05 a. m.]

287. I have just learned that over the week end the French Assistant Financial Attaché, Monsieur Felix le Norcy, informed Leith-Ross that he had been attached as economic expert to the French Legation in China. This appointment has not as yet been officially communicated to the British Government, which accounts for the statement in my 282 [*283*] June 25, 2 p. m.

Norcy now plans to leave for Shanghai in early August and Peiping about mid-September. He is considered here an adequate number two in the French Financial Attaché's office and has had many contacts with the press, in presenting the French financial point of view. He is in no way, however, an outstanding figure and of course has not the prestige of Leith-Ross.

The French Ambassador has confirmed above but adds no official notification can be made until it is certain the health of French Financial Attaché will permit the absence of his assistant.

BINGHAM

893.515/667

Memorandum by the Under Secretary of State (Phillips)

[WASHINGTON,] July 1, 1935.

Yesterday morning, Sunday, the British Ambassador called upon me at my house. He referred to an article appearing in The *New York Times* on Friday morning based on the Secretary's press conference of Thursday. The article represented the Secretary as having, in substance, extended an invitation to Sir Frederick Leith-Ross to visit Washington on his way to China for the purpose of discussing various matters of mutual interest. The Ambassador informed me that this despatch had been telegraphed to London and that he had just received an inquiry from the Foreign Office as to whether this article, in fact, represented this Government's views. I replied that I had not spoken to the Secretary about the matter, but that at the press conference on Saturday I had been questioned about the article

and had told the press that, in my opinion, the Secretary was merely speaking in generalities and without any particular reference to Sir Frederick. I explained that the Secretary had, without notice, been questioned with regard to Sir Frederick's visit and, not knowing whether Sir Frederick was, in fact, planning to come and having received no communication from our Embassy in London on the subject, he had merely endeavored to side-step the question—at the same time with a courteous reference to Sir Frederick Leith-Ross or any other distinguished visitor who might come to this country. I told Sir Ronald that I could say quite frankly that the Secretary did not intend to extend an invitation and that the *New York Times* article to which he referred had not, in my opinion, been a correct interpretation of the Secretary's comments at his press conference.

Sir Ronald added that Sir Frederick would probably be glad to come to this country if we were in a position to discuss our silver policy with China, but I gave him no hope that we were ready for discussions of this character and Sir Ronald dropped the matter without further comment.

WILLIAM PHILLIPS

893.515/674

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

[WASHINGTON,] July 9, 1935.

Conversation: The Secretary of the Treasury, Mr. Henry Morgenthau, Jr.;
Mr. Herman Oliphant;[7]
Mr. Hornbeck.

Mr. Morgenthau showed me a letter from Sir Josiah Stamp[8] in which Stamp stated that Sir Leith-Ross was proceeding to China via Canada; in Canada he would stop over a week end with a cousin at Toronto; and would Mr. Morgenthau care to take advantage of this fact in order to discuss with Leith-Ross the question of stabilization which Stamp and Morgenthau had discussed when Stamp called here in May. There were certain paragraphs in the letter over which Mr. Morgenthau was very much displeased. He said that he had shown the letter to the President who was equally and even more displeased. He said that he and the President were definitely and conclusively opposed to this Government making any approach to the British by way of inviting conversation with Leith-Ross. He

[7] General Counsel of the Treasury.
[8] Director of the Bank of England.

had drafted a reply to Stamp, and he wished that I would give them the benefit of any ideas that I might have for giving the draft a completely diplomatic quality.

I read the draft and made the comment that, as a reply to Stamp's letter, and dealing exclusively with the question of proposed conversation between Ross and Mr. Morgenthau, the draft seemed to me satisfactory; I might perhaps suggest for consideration a few verbal changes; but that the letter took no account of the fact that the Secretary of State was favorable to the idea of our having some kind of a contact with Ross and being in a position to draw Ross out on the subject of the British Government's ideas in relation to the question of financial attachés to the Missions in China and also with regard to the British Government's views on the China situation in general. Mr. Morgenthau said again that the President and he were opposed to our making any kind of a gesture of invitation to Ross.

I said that it was evident that the British Government would like to have Ross talk with us; that Mr. Morgenthau had said earlier in the conversation that we would be willing to receive Ross if the British Government would say to us directly that they wished to send him here and would do the whole thing above board; that this made the situation one in which each Government would be willing that there be a conversation, in which the China matter would probably be the chief subject, but that neither Government was willing to say to the other that it wanted to have such a conversation. Mr. Morgenthau repeated that the President and he were opposed to our giving any kind of an invitation to Ross or doing anything other than being receptive to a request from the British Government on his behalf.

It was then agreed that Mr. Oliphant and I should take the draft and I should give Mr. Oliphant my ideas of changes of phraseology.

I said to Mr. Morgenthau that I had with me and had been asked by the Secretary to hand to him a copy of a memorandum which the Secretary contemplated giving the President; I explained the subject matter and handed Mr. Morgenthau a copy of the long memorandum prepared in EA.[9] Mr. Morgenthau said that he would take it home for his reading this evening. I next said that I had seen last night for the first time the tentative draft of a letter which Mr. Morgenthau had considered giving to the Secretary of State (which I exhibited) and that immediately upon reading it I had felt that it contained confirmation of an impression which I had long entertained that there was a difference in the concepts of the Secretary of the Treasury and the Secretary of State, respectively, with regard

[9] Not printed; the memorandum, dated June 27, entitled "The Interweaving of Political, Economic, and Monetary Elements in the Present Position in China," was prepared by Dr. Herbert Feis, Economic Adviser; it was handed to President Roosevelt by the Secretary of State July 10 (893.515/672).

to the matter in hand and the procedures which had been and were under discussion; and that I had dictated partly for clarification of my own thought a memorandum of comment on that point and then a few paragraphs of comment on the question which the Treasury Department had formulated for possible submission to the British Government; that I had shown these memoranda of comment to the Secretary of State with the proposal that I give them to Mr. Morgenthau as a part of an oral statement on my part in at attempt to lead toward getting this matter into the same perspective in the eyes of the two Departments; that the Secretary had tacitly approved my doing this; and that, if Mr. Morgenthau was agreeable, I would like to leave with him this paper [10] for whatever value it might have, as an entirely informal and unofficial bit of comment. Mr. Morgenthau said that he welcomed my giving him this item. (Note: Throughout the conversation Mr. Morgenthau was decidedly "agreeable".)

Mr. Oliphant and I withdrew and proceeded to work out some amendments to the draft of Mr. Morgenthau's letter to Stamp. I then took opportunity to make to Mr. Oliphant a number of observations in regard to difficulties on the one hand of procedure in the efforts of the American and British Governments to work together, and difficulties in the efforts of the State Department and the Treasury to work together; and I reiterated the point that the State Department feels it entirely desirable, in regard to Far Eastern matters, that the British and American Governments cooperate or proceed on parallel lines wherever and whenever possible; that we feel it advantageous to be responsive to suggestions which the British Government makes, when possible; that in the present instance the Secretary of State feels strongly that it would be to our advantage to find out all that we can from Sir Leith-Ross and probably to our advantage to appoint a financial attaché to our Mission in China; that the letter which the Treasury had drafted would put an end to the possibility of any conversation with Leith-Ross and, if sent, would amount to leaving entirely out of consideration the fact that here was afforded an opportunity for us to make such a contact; that there were several ways in which a conversation with Ross could be arranged, and that it would seem too bad that the State Department should not be enabled to do anything toward that end. I said that I wished Mr. Oliphant would review those points in conversation with Mr. Morgenthau. Mr. Oliphant said that he would do so.

Mr. Oliphant volunteered to give me a copy of the draft as it stood to bring to the Secretary of State.

The draft is here attached.[11]

S[TANLEY] K. H[ORNBECK]

---

[10] *Infra.*

[11] Not printed.

893.515/674

Memorandum by the Chief of the Division of Far Eastern Affairs (Hornbeck)[12]

[WASHINGTON, July 9, 1935.]

I. It is clear that there has been and is a difference between the views of the Secretary of the Treasury and those of the Secretary of State with regard to the problem and with regard to procedure for dealing with the question of relations with China wherein there are involved the subjects of silver and of possible assistance by the United States to China.

The Secretary of the Treasury evidently conceives that the subject or subjects to be dealt with in this connection are either primarily political or primarily monetary; and that if they are the former, discussion of them with China falls within the province of the Department of State, whereas if they are the latter, discussion of them with China falls within the province of the Treasury Department. He says, "In view of the position of the Department of State that the subject now under discussion is primarily political and within its province rather than monetary and, therefore, within the province of the Treasury Department, my Department has refrained from commenting upon the British suggestion (for the appointment of financial attachés to the diplomatic missions in China)".

The Secretary of State naturally has not this conception. Whether or not this subject or these subjects be regarded as primarily political or as primarily monetary, the simple and noncontroversial fact is that consideration of it or them involves consideration of relations between the United States and China, and discussion of them between the Governments of the United States and of China is and must be a political act and, if engaged in, cannot be disassociated from consideration and discussion of political relations between the two countries. The matter therefore cannot, under any conception, be regarded as of no concern to the Department of State and of exclusive concern to the Treasury Department. Moreover, the Secretary of State is the President's principal aide in and for the conducting of foreign relations; and the question of relations between the United States and China is a question which is primarily his concern and for which he is primarily responsible. Relations of the United States with China involve a great many factors of a character and a variety which are not involved in relations of the United States with most other countries. Discussion between the American Government and, say, the

[12] Comment occasioned by the Secretary of the Treasury's draft reply to a letter, dated June 10, from the Secretary of State, transmitting the British Embassy's *aide-mémoire* of June 7. This memorandum was handed to the Secretary of the Treasury, July 9; see *supra*.

British Government, of a question which may be and is regarded as primarily monetary, can be held without much consideration of or discussion of political factors. Such discussion may, therefore, conveniently and appropriately be carried on between the finance departments of the two Governments (each of the finance departments consulting the respective foreign offices when and as appropriate). But discussion between governments is normally and for the most part conducted between secretaries of state for foreign affairs. In the case of relations between the United States and China the factors involved are such that the political aspects of the subjects which come up for discussion are almost always primary and can never safely be disregarded. Relations with China, for the most part, cannot be disassociated from relations with Japan and, more often than otherwise, relations with a number of other countries. The Secretary of State therefore naturally feels that correspondence, discussions and negotiations with China should regularly be conducted by or through the Department of State.

The "subject now under discussion" certainly involves not alone relations between the United States and China but relations between the United States and China and Japan and Great Britain and France and, in fact, all the powers which have interests in and with regard to China, especially the powers signatory to the Nine Power Treaty of Washington of 1922 [13] (principally, however, the five powers first named). The handling of such a matter surely falls primarily within the province of the Department of State, regardless whether the subject is primarily political or primarily monetary.

Such handling, however, need not be and should not be exclusive to the Department of State. That Department should consult fully with the Treasury Department and the Department of Commerce and any other department or departments which have an interest in the question under discussion or which can contribute advantageously toward the solving of the problems which may be involved or the administering of procedures which may be agreed upon.

II. The Secretary of the Treasury suggests that a question or questions be put to the British Government "along the following lines:

"The American Government, after considering carefully the British suggestion that a financial expert be attached to the American Legation at Peiping, has concluded that such a step would be advisable only if there were grounds for believing that prompt and effective action would result from such an appointment. The American Government would, therefore, welcome an expression of the views of the British Government as to the possibilities of such action and, if the British Government is of the opinion that effective action will be taken, the American Government would appreciate an indication of the specific

[13] Signed February 6, 1922, *Foreign Relations*, 1922, vol. I, p. 276.

measures comprising the program envisaged by the British Government. The American Government would further appreciate an indication whether the problems to be considered by the financial expert to the British Legation are of a political or of an economic and monetary nature, and, if of the latter, whether it is the desire of the British Government that the expert to its Legation should discuss monetary matters of a character other than those peculiar to China."

He states that, "With the way opened for prompt and effective action from the economic and monetary point of view, the Treasury Department will take such action and send to China, when such a step, in its opinion, is calculated to produce constructive results, the ablest financial expert which it can find."

The Secretary of the Treasury indicates a desire that "the State Department . . .[14] receive from the British Government a clear-cut response" to the question or questions suggested.

It is clear that, in this connection also, there is a difference between the Secretary of State's conception of the matter involved and the Secretary of the Treasury's conception of the matter.

The Secretary of the Treasury evidently believes that the appointing by the American Government of a financial attaché to be attached to the American Legation at Peiping, in parallel to the appointment by the British and the French Governments of similar financial attachés to their missions in China, and at the suggestion of the British Government, "would be advisable only if there were grounds for believing that prompt and effective action would result from such an appointment." The Secretary of State, however, believes that such an appointment would be advisable whether or not there be grounds for believing that prompt and effective action would result therefrom. The Secretary of State looks at the matter not alone from point of view of possible effect as regards the present monetary question but from point of view of relations (long swing and in general) between, on the one hand, the United States and China, and, on the other hand, the United States and several other powers, especially Great Britain, interested in China's monetary problems and China's financial relations with other powers. The Secretary of State does not conceive it essential that there be definite prospect that "effective action will be taken"; he considers it desirable that the American Government give evidence of the desire to cooperate with the British and other governments and to be helpful, if possible, to a neighboring country with which we have friendly relations and which is in difficulties, China. The Secretary of State is of the view that the financial attachés, if and when appointed, will study the problems in China as they find them and will report to their respective govern-

[14] Omission indicated in the original.

ments, acting independently of each other but with the objective of collaboration and cooperation when and where possible. He is of the view that it would be more useful, by and large, to discuss objectives and possibilities informally with agents of the British Government than to put the suggested questions categorically to the British Government and expect or demand from the British Government a clear-cut response to the questions—which response would not be likely to be forthcoming. He takes stock of the British habit and method of indefiniteness, and he doubts whether the British Government would be inclined to define or limit exactly the functions of the financial attaché which it is sending to its mission in China. He believes it desirable that we have a financial attaché at our mission, in part because the British and the French Governments are going to have such attachés, in part because the mere fact of attempting to cooperate will be in line with our declared and intended Far Eastern policy and in part because the work and the findings and the recommendations of such an attaché ought in and of themselves to be of value to this Government. He therefore does not consider it essential to lay down or to wait upon the condition that "the way first be opened for prompt and effective action from the economic and monetary point of view"; he conceives that it should lie at least as much with the Department of State as with the Treasury to say whether and when a financial attaché shall be sent; he regards the matter as one of concern to the whole American Government, as one of concern primarily from point of view of foreign relations; and he feels that the broad interests of the United States can, under the circumstances, better be served by appointing a financial attaché to the Peiping Legation than by refusing to appoint one.

893.48/968

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

No. 1383 TOKYO, July 10, 1935.
[Received July 27.]

SIR: I have the honor to refer to the Department's instruction No. 757, dated May 6, 1935 (file No. 893.48/941), in regard to the alleged boycott by Japanese cotton mills in China of some 102,000 bales of American raw cotton which had previously been purchased by the Chinese Government under the terms of the wheat and cotton credit extended by the Reconstruction Finance Corporation. The Embassy was instructed to report any information which might be obtainable without making inquiry in official quarters concerning the present attitude of the Japanese Government toward the alleged boycott.

Discreet inquiries made by the Embassy in Tokyo of non-official quarters failed to confirm the allegation that the Japanese Government instigated or supported the boycott. It is the opinion of one competent observer that the boycott is non-official; that the Japanese mills in China possess well-organized and adequate channels through which their supplies of American cotton are ordinarily purchased; that they do not wish to disrupt their usual methods of obtaining supplies unless some considerable advantage can be obtained by buying elsewhere; that they know very well that the surplus of American cotton on the Chinese market constitutes a "distress" supply; and they believe that if they wait patiently they will be able to buy this "distress" supply at a very profitable discount. The observer in Tokyo does not believe that the Japanese Government has any connection with the boycott and that the Japanese cotton mills in China will eventually buy the cotton, when they find it to their advantage to do so.

Tokyo, however, is not a cotton center and it is difficult to find non-official sources of information in regard to the cotton trade. Consequently the Embassy requested the Consul at Kobe to make discreet inquiries in regard to the matter of the American cotton selling agencies in Osaka, the cotton center of Japan. A copy of the report made by the Consul on his findings is enclosed herewith.[15] From this it will be observed that the cotton merchants in Osaka are of the opinion that the Japanese authorities in China did in fact instigate the boycott.

It appears that it will be impossible for the Embassy to obtain information in regard to the present attitude of the Japanese Government toward the boycott without approaching the Japanese authorities. It does not seem that it would be advisable, in the lack of more definite information, for the Embassy to approach the Japanese Government with a suggestion that the Japanese officials "lift the boycott", for to do so would only invite denials of any connection with the affair. The Embassy, however, can see no objection to a friendly and informal discussion between a member of the staff of the Embassy and the Chief of the Bureau of Commercial Affairs of the Foreign Office[16] on the subject of the boycott, with a view to obtaining such information as Mr. Kurusu may possess on the subject.

Respectfully yours, JOSEPH C. GREW

893.515/668

Memorandum by the Under Secretary of State (Phillips)

[WASHINGTON,] July 12, 1935.

During his call this morning the Chinese Minister asked whether the Government had reached any decision with respect to sending a

---

[15] Not printed.
[16] Saburo Kurusu.

financial attaché to China. He expressed earnestly his hope that we would find it possible to do so.

I explained to the Minister that the matter was still undecided and was a subject which was, even now, being discussed with the Treasury Department. I said I hoped we would reach a decision shortly.

WILLIAM PHILLIPS

893.51/6019 : Telegram

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

PEIPING, July 12, 1935—9 a. m.
[Received July 13—6:45 a. m.]

353. Legation's 329, July 1, 5 p. m.[17] Beginning on July 6 large numbers of Koreans and Chinese for 4 days crowded premises of the "joint treasury of the four banks" (Kincheng, Yien Yieh, Continental, China and South Seas) in Tientsin and demanded silver in exchange for notes. The silver according to report was later exchanged in money shops in the Japanese concession at a premium ranging from 5 to 10%. By July 10 more than $300,000 had been paid out and on July 11 according to today's press the joint treasury in accordance with a decision reached by the Chinese Bankers Association announced suspension of redemption in silver, the notes of the banks concerned to be redeemed only in notes of the three government banks. An editorial appearing in the Peiping and Tientsin *Times* states the participants in the bank run have been mainly "minions of some operator who naturally wishes to remain in background and if proof of this is required one has only to watch unkempt coolies at the counter producing bundles of notes of a value of which they can only have dreamed". It is generally believed that silver smugglers are behind the movement and in considering this question the afore-mentioned newspaper calculated that approximately 44,000,000 yen of silver was smuggled out of China with Japan as its destination in the first 5 months of 1935.

A reliable foreign banker in Tientsin gives the report that Shanghai Chinese [bank?] (name unknown) was recently taken over by the Government whereupon it was discovered that the bank had $20,000,000 in overdrafts most of which had been granted to officials of the bank and other private persons; other scandals mights be expected.

The general government situation is said to be such that the proclamation of a general moratorium on the exchange of silver for bank notes in the near future is a distinct possibility. The British are

[17] Not printed.

reported to view the situation with concern by reason of the alleged possibility that the Japanese may endeavor to obtain control of the Chinese currency in the anticipated crisis to further their own program.

Repeated to Nanking, Shanghai and Tientsin by mail.

JOHNSON

893.515/676

Memorandum by the Under Secretary of State (Phillips)

[WASHINGTON,] July 15, 1935.

I called on Secretary Morgenthau this morning and told him of the conversation which I had had with the British Ambassador on July 11th with regard to Sir Frederick Leith-Ross. Mr. Morgenthau replied that clearly Stamp must have misunderstood him. It was Stamp himself who had made the suggestion of a possible conversation with third parties, whereupon Mr. Morgenthau had replied that he did not care to discuss such questions through third parties. Secretary Morgenthau authorized me to say to the British Ambassador that if the British Embassy should ask whether a visit from Sir Frederick would be welcome, the answer would be "yes", but that, on the other hand, the Treasury has nothing in particular to discuss with him at the present time. Mr. Morgenthau made quite clear that he would not consider going to Toronto himself, nor did he welcome the suggestion of any other member of the Treasury going in his place.

It is evident that Mr. Morgenthau would be embarrassed by the appointment of a financial attaché to China at the present time. He foresees a round table discussion in China between the British, French, and American attachés, and a majority opinion saying to the American attaché that it is up to the United States to rearrange its silver policy. I said that while the Treasury might well feel the way it did, the State Department, on the other hand, was anxious to cooperate with Sir Frederick on matters other than purely monetary; that it had been our policy for many years to cooperate in the Far East with the British, and that we feared that the impression might be spread over the Far East of a lack of cooperation between our two Governments if a man of the high standing of Sir Frederick should pass this way, within a few hours of Washington, without having any contact with the Government. Mr. Morgenthau very cordially said that he would like to have a further conversation with me on this subject. He showed me Sir Josiah Stamp's letter to him and his reply, which had already gone forward. It seemed to me that his position was in brief: That he wished to put the burden of responsibility of suggesting conversations

with the British upon the British Government itself, and that if the British Government would take this responsibility, the United States Treasury would be glad to reciprocate. Mr. Morgenthau emphasized the attitude of the President in this particular.

WILLIAM PHILLIPS

893.515/677

Memorandum by the Under Secretary of State (Phillips)

[WASHINGTON,] July 16, 1935.

I met the British Ambassador at dinner last evening and told him that I had had an opportunity to speak to Secretary Morgenthau with regard to the Leith-Ross matter. It appeared that the Secretary had heard from Sir Josiah Stamp directly and had already replied. Mr. Morgenthau, I added, was certain that Sir Josiah Stamp had misunderstood his (Morgenthau's) views during their recent conversation. Sir Josiah had, in fact, brought forward the suggestion as his own of a possible meeting in Canada or elsewhere between Mr. Morgenthau and "a third party", but Mr. Morgenthau had replied that he would prefer not to carry on conversations with any "third party" and could not, of course, consider going to Canada.

I told the Ambassador that my impression was that if the British Government, through the Embassy here, would care to take the initiative by asking whether a visit from Leith-Ross was desired, the reply would be to the effect that such a visit would be welcome. To this Sir Ronald said that he felt confident that there was no such intention on the part of the British Government. The Ambassador did not appear to attach importance to the incident.

This morning the Ambassador called at the Department on his own initiative and referred to our brief conversation last evening. He said that he wanted to assure me that "no bones had been broken" and that everything remained just as it had been before. The Ambassador felt that Leith-Ross' viewpoint was not to appear discourteous in any way in having failed to come to Washington on his passage through to China; Leith-Ross, in this instance, was merely a "third party" inasmuch as the British Government had no intention of instructing him to pass through Washington.

From this the Ambassador went on to an expression of the view that, while there was no active cooperation any where in the world between the United States and Great Britain, actually the relations of the two Governments and the peoples were highly satisfactory.

WILLIAM PHILLIPS

893.515/708

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

[WASHINGTON,] July 22, 1935.

The Chinese Minister informed me in strict confidence that he has a confidential message from the Chinese Minister of Finance inquiring informally and confidentially when the Chinese Government may "hope to know of the designation of an American financial adviser", inasmuch as the British financial adviser is to arrive in September. The Minister of Finance says that the people in China attach great importance to American cooperation. He refers to the American Government's message of February 26 which intimated a desire of international cooperation. He requests that this inquiry be treated as strictly confidential.

I stated to the Minister that no decision had as yet been arrived at.

S[TANLEY] K. H[ORNBECK]

811.51693/78

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

[WASHINGTON,] July 25, 1935.

Reference: Mr. Phillips' memorandum of conversation with Mr. Cameron Forbes of July 25.[18]

Mr. Forbes asks Mr. Phillips to tell the President that Forbes has been discussing with the Export and Import Bank the possibility of governmental assistance toward the purchasing of Russell and Company (in China); and that Forbes feels that the Bank could assist toward formation of an American bank in Shanghai starting with a capital of $10,000,000 to finance Chinese enterprises and that Forbes has already obtained approximately $9,000,000 toward the creation of such a bank; also, that Forbes looks forward to the bank's assisting China in railway construction to Szechwan; also, that no legislation would be necessary in order that the bank "take a hand in the situation".

Comment: Mr. Forbes has returned from his tour of observation—with and as Chairman of the American Economic Mission to the Far East—full of enthusiasm for business with China. He has some definite and positive ideas on the subject of what should be American policy in regard to the Far East. He has stated to me on several

---

[18] W. Cameron Forbes, Ambassador to Japan, June 1930–March 1932; memorandum of conversation not printed.

occasions during the past ten days, and he repeated to Mr. Norman Davis[19] in my presence this morning, that he believes we should go ahead with business enterprises regardless of what the Japanese may think about our efforts; and that we should make it a point to "speak softly but carry a big stick".

With regard to the proposal to form an American bank in Shanghai with a capital at the outset of $10,000,000, the advantage or disadvantage of proceeding with such an enterprise must depend largely, as is the case with so many projects, on the character of the commercial backing and the personnel which would be associated with the enterprise. In the course of the past twenty years there have been organized for business in China several American banks and financial or quasi-financial organizations. Unfortunately most of these enterprises have "folded up", and some of them have definitely "failed". In the light of this fact and of the very recent collapse of the various enterprises with which the name of an American very active in the Shanghai business world has been associated, it is highly desirable that any proposal for the creation of a new American bank in China be approached conservatively. It is believed that if the proposed enterprise could have the backing of several men of such character and standing as is possessed by Mr. Forbes, the project might safely be given the blessing and assistance of the American Government.

With regard to the proposal for the resurrection of Russell and Company, the same points should be considered and the same hypothesis may be laid down. (Note: It is assumed that Mr. Forbes has in mind the creation of a new organization resembling the old (but long since disposed of to other interests) American trading firm of Russell and Company—in which the Forbes family was actively interested and which had a very good reputation.) The character of the backing and of the personnel are the important items to be considered.

With regard to the question of assisting in railway construction into Szechwan, the fact must be kept in mind, throughout, that any project for the building of such a railway line will probably have to be dealt with in terms of existing British and French and German and American rights, and of diplomatic and other cooperation between and among those four countries, and of popular opinion in China and popular and official opinion in Japan. Existing and long-standing concessionary rights and agreements which relate to such a project cannot be disregarded or swept aside; and Japanese views and aspirations cannot be left out of account; and the political situation in China, with its local contentions and animosities must be taken into account. If this project is handled carefully and sufficient time is allowed for

[19] Chairman of the American delegation to the Disarmament Conference at Geneva.

working out a carefully conceived plan step by step and diplomatically, it may be that Mr. Forbes' idea of linking up the contemplated bank with the construction, ultimately, of such a railway, might be put into execution. But if the matter is proceeded with hastily and without full knowledge and scrutiny of inescapable facts in the situation, this project would probably go the way of a considerable number of earlier American projects which have been hastily conceived and rushed forward only to be broken against stone walls of foreign opposition or buried in quicksands of Chinese unreadiness and unwillingness (such as the Hsinmintun–Fakumen Railway, Chinchow–Aigun Railway project and the Siems–Carey projects).

It is believed that no decisions involving or committing the United States Government in connection with any of these matters should be made by any other agency of the Government without there first having been full consultation with the Department of State.

S[TANLEY] K. H[ORNBECK]

893.515/709

Memorandum by the Under Secretary of State (Phillips)

[WASHINGTON,] July 29, 1935.

I discussed at considerable length this afternoon with the President the question of the appointment of a Financial Adviser to China. He is still not ready to say "yes" or "no", and believes that our best answer for the present is to reply that the matter is still under advisement.

WILLIAM PHILLIPS

893.515/681 : Telegram

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

WASHINGTON, July 29, 1935—3 p. m.

224. The Department is reliably informed that T. V. Soong has cabled the Chinese Ambassador at Moscow [20] to the effect that the American Government, having promised to send a financial expert to China whose mission and capacity would be similar to that of Leith-Ross and who is being sent by the British Government, has failed to make the appointment. The American Government has made no such promise. The British Government informed us of the appointment of Leith-Ross and asked that the American Government likewise appoint a financial expert to be attached to the American diplomatic mission in China. The Department replied that the American Government would give consideration to the matter. As yet no decision has been reached.

[20] W. W. Yen.

The Department desires that you telegraph Atcheson or Cunningham to communicate the substance of the foregoing orally to Soong.

PHILLIPS

893.515/698 : Telegram

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

PEIPING, August 3, 1935—5 p. m.
[Received August 5—4:54 a. m.]

396. Following from Shanghai:

[1.] "August 2, 1 p. m. Substance of Department's telegram No. 224, July 24 [*29*], 3 p. m. made known personally to T. V. Soong. In paraphrase he stated that 'I know the United States had made no commitment, but I do hope that it will favorably consider the suggestion of the British Government.'

[2.] In explanation he said in substance that he could not see from the American point of view any disadvantage in sending an expert who might be able to influence events and at the same time retain his liberty of action. Politically for both China and Japan the abstention of the United States must certainly be interpreted as emphasizing the hopelessness of any Anglo-American cooperation in working for peace in the Far East. In making this statement he emphasized that he realized full well that former Secretary Stimson's [21] policy had almost invariably been left in the lurch by Great Britain but he felt convinced that the British are now fully aware of the consequences of the policy of drift which they have hitherto followed and are anxious to secure American cooperation in the Far East.

3. He did not state any reason for being convinced that the British had ceased to continue the policy of drift except for the retirement of Sir John Simon as Minister of Foreign Affairs.

4. Soong stated that he had sent personal cables to the Chinese Ambassador at Moscow and Alfred Sze at Washington and that this message I delivered was probably a reply to one of his personal messages".

JOHNSON

893.48/968 : Telegram

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

WASHINGTON, August 8, 1935—6 p. m.

124. Embassy's despatch No. 1383, July 10, last sentence. In view of the absence of conclusive evidence that the Japanese Government is responsible for refusal of Japanese mills to purchase the American cotton under reference in Shanghai, and in view of the statement of the Consul at Kobe that "large quantities" of such cotton have been re-exported from China, the Department is of the opinion that the

[21] Henry L. Stimson, Secretary of State from 1929 to 1933.

matter need not be discussed in any way with officials of the Foreign Office.

HULL

893.515/701 : Telegram

The Second Secretary of Legation in China (Atcheson) to the Secretary of State

NANKING, August 9, 1935—9 a. m.
[Received 1 : 31 p. m.]

227. First paragraph of 222, August 2, 10 a. m.[22]

1. The Acting Chairman of the Executive Yuan and Minister of Finance called me to his office late yesterday and inquired when the American Government would send a financial expert to China. He said he hoped such an expert would be here in time to consult with the British expert and with the expert he said the French Government is sending. He asked me to telegraph this inquiry to the Department and say that the Chinese Government would appreciate learning the name of the American expert to be appointed and the date that official would arrive in this country. Suma, he said, had told him that it was not necessary for Japan to designate an expert at this time, Japan was geographically so near China that the appointment of a Japanese expert if advisable could be made when the others arrived. I should appreciate instructions as to what reply it is desired I make to Kung's inquiry.

2. I mentioned having heard a story that arrangements had already been practically effected for some kind of British loan to China. Kung did not deny the story and said that any such loan would be a measure for temporary relief only and would involve only British and Chinese banks and not the two Governments. He said he did not know whether the Japanese would raise any objections to it. (Persistent rumors say that this loan if made is to be used as an equalization fund in connection with currency inflation.)

3. Kung said that the Chinese Government was expecting the Japanese military to present some demands in connection with the Luanchow incident[23] and he inquired as to the attitude of the American Government toward the last 2 months' developments in North China. As reply I used the substance of paragraph 2 of Department's 56, July 5, 6 p. m.[24] (I made similar remarks to the Acting Minister for Foreign Affairs on a suitable occasion which arose August 2.) Kung said that the Japanese would continue to create incidents and the future for China was very dark. The Sino-Japanese situation,

[22] Not printed.
[23] See paragraph 5, telegram No. 447, August 30, 5 p. m., from the Minister in China, p. 343.
[24] *Ante*, p. 295.

he stated, profoundly concerned the entire Pacific area and would adversely affect the countries bordering that ocean. He asked me to keep him informed as to the attitude of the American Government toward the developments which would occur from time to time.

4. To the Department and Legation. By mail to Tokyo.

ATCHESON

893.515/706 : Telegram

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

LONDON, August 10, 1935—1 p. m.
[Received August 10—10:40 a. m.]

362. Embassy's 283, June 25, 2 p. m. Leith-Ross sailed on the *Empress of Britain* for Canada accompanied by Hall Patch of the Treasury and Rogers, a junior clerk of the Bank of England. Leith-Ross has given out very definitely he must be back in England within 6 months but Hall Patch may remain on more or less indefinitely in the British Legation in Peiping. Leith-Ross has been out of London on leave for some weeks but at the time of sailing this morning he informed press correspondents he was not going to Washington, since, in spite of fact that the British Ambassador in Washington had advised the American Government of this intended mission to China, the American Government had made no reply, nor invited him to stop off at Washington on his way to the East. Leith-Ross is scheduled to sail from Vancouver on August 22nd for Tokyo, where he has stated he will make a short visit. He is expected to reach Shanghai some time about the middle of September. Hall Patch, in informally commenting on London newspaper reports that the mission would discuss various subjects in Tokyo, stated confidentially that Leith-Ross was without instructions as to what he should discuss in Tokyo beyond the hope expressed to him that he would fully reassure the Japanese as to British aims. In reply to a press query Leith-Ross stated he would discuss nothing in Tokyo that could be interpreted as an Anglo-Japanese *rapprochement* affecting United States interests in the Far East.

ATHERTON

893.515/706 : Telegram

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

WASHINGTON, August 11, 1935—3 p. m.

206. Your 362, August 10, 1 p. m., third sentence. Did Leith-Ross initiate the press conference or was he approached and subjected to

leading questions? Did he say expressly that "American Government had made no reply"?

What is your estimate of his attitude and his purpose in saying to the press just these things and of how far they are suggestive of Foreign Office attitude and tactics?

What reports of this conversation has the British press given and what comments?

Avoid disclosing that we have inquired.

Prompt telegraphic reply requested.

HULL

893.515/707 : Telegram

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

LONDON, August 12, 1935—4 p. m.
[Received August 12—2:42 p. m.]

364. Your 206, August 11, 1 [3] p. m. On Friday last at press conference, in reply to question based on a Tokyo story of an alleged approaching Anglo-Japanese conference, Foreign Office stated that a series of diplomatic discussions with Japanese Government in Tokyo would begin this autumn dealing with economic, political and naval matters, and added in substance as follows: "Leith-Ross would inaugurate these, although he would only touch on economic matters. Ambassador Clive would carry on the political and naval discussion, and Ambassador Matsudaira, now on leave in Japan, would also be [present?]" British and American correspondents, I understand, both used this story.

On the station platform Saturday prior to sailing Leith-Ross replied to a query of an American press correspondent as to why he was not going to Washington: "I don't go places where I am not invited," and subsequently added: "as you probably know, the American Government was informed of my mission to China but we have had no reply."

These statements were not made to British press correspondents and are not carried here, but I am informed certain American press correspondents have cabled the story.

I do not feel there is any Foreign Office attitude or tactics behind these remarks. I consider, however, that certain Treasury and economic advisers have failed to understand why the United States Government has either not adopted the British suggestion for Far Eastern economic and financial conversations or outlined those considerations which prompted lack of action. Furthermore, there is reason to believe that Leith-Ross himself is somewhat annoyed in view of the fact

that after considerable effort the necessary British official authorization was obtained for a suggestion to be made on private British initiative to the appropriate American authorities that once in Canada Leith-Ross should enter the United States for very secret discussions on his financial economic mission and other allied financial economic subjects, but that the suggestion for such secret conversations was not entertained by the American authorities.

At press conference today Foreign Office stated there was no reason for Leith-Ross to visit Washington since he would confer with United States officials in Tokyo.

ATHERTON

893.515/716

Memorandum by the Under Secretary of State (Phillips)

[WASHINGTON] August 12, 1935.

I called this morning upon Secretary Morgenthau and told him that a good many of us in the Department were becoming very much concerned over recent developments in the Far Eastern situation and that I would like a few minutes talk with him on the subject. Mr. Morgenthau at once sent for Mr. Coolidge.[25]

It had become apparent, I said, that important trends were developing in the Far East which might directly affect American interests in that part of the world; in the past our policy had always been close cooperation with the British Government in the Far East, a policy which we in the Department felt would protect American interests in the Far East better than if we were trying to go it alone; the policy of Japan was, of course, directly opposite; they would be glad to drive a wedge between the British and American Governments in the Far East; therefore, it was all the more important for us to do nothing which would tend to give the impression abroad that there was any radical divergence of views between London and Washington in connection with the Far East; as a result of an interview given by Sir Frederick Leith-Ross just before he left London, it was evident that he was disappointed, to put it mildly, by the fact that he had not been urged to come to Washington en route to the Far East, that, regardless of the rights or wrongs of the matter, it seemed to me unfortunate that a man of his quality and standing should go to the Far East with the feeling that he had been slighted in any way by this Government; moreover, Sir Frederick Leith-Ross' interview had undoubtedly been spread all over the press of China and Japan and might easily have created already an impression that there was a divergence of views between the British and American Gov-

[25] Thomas J. Coolidge, Under Secretary of the Treasury.

ernments; in the circumstances, I wondered, and I had already made the suggestion myself to Secretary Hull this morning, whether it might be advisable for me to go to Toronto to meet Sir Frederick at his cousin's house, where he will be staying, that if I went I could explain the reasons why we had not felt it possible to extend an invitation to him to come to Washington; that we naturally assumed he would like to consult us with regard to our silver policy, that, for various reasons, including the presence of Congress, we could not discuss such matters at this time and that we felt, therefore, we had better refrain from causing him (Sir Frederick) any disappointment in this respect; I could continue by saying that I had come up to Toronto to assure him that our historic policy in the Far East with respect to the British Government remains unchanged; that we desired close cooperation and good team work.

I might have added (though I did not say this to Secretary Morgenthau) that our representatives in the Far East would be glad to talk over with him at any time any matters which he might care to bring to their attention and receive from him any messages which he might care to send to us.

Secretary Morgenthau very evidently did not welcome my suggestion. He expressed surprise that the Under Secretary of State would think of going to Toronto to contact with a British official, who was only fourth or fifth in order of rank. I replied that I did not know about his numerals, but Sir Frederick was, in fact, the principal financial and economic adviser of the Foreign Office, of the Treasury and the entire British Government and could only be accepted as one of their most important officials.

Secretary Morgenthau referred to the comment which the British Ambassador had made to me during my last interview with him [26] on the subject of Sir Frederick's proposed visit to the effect that there was no real cooperation between the two governments, although on the other hand, there were good relations between the two. Mr. Morgenthau attached so much importance to this casual remark of Sir Ronald that he sent for his secretary, with instructions to find the memorandum of the conversation in question. When it arrived he re-read it and was more than ever satisfied that it was a slap at us. I said that I could not agree with this interpretation and felt convinced that there was nothing in the Ambassador's mind to that effect when he made the remark.

At the end of a somewhat lengthy conversation, in which I brought out Secretary Hull's concern about the entire Far Eastern situation, including the naval memorandum just received from the British

[26] On July 16, p. 606.

Government,[27] Mr. Morgenthau said that, while he was certain of the President's attitude, he (Morgenthau) would not say anything to the President in disparagement until after I had talked to the President, if I decided to do so; he, however, reserved his right to express himself freely to the President, in the event that the President might be persuaded to accept my viewpoint; he was certain, however, that he knew the President's mind in this respect and that he had a fundamental belief that it was better to make no overtures to the British, but rather to bide our time until they should come to us.

WILLIAM PHILLIPS

893.48/986

Memorandum by Mr. Raymond C. Mackay of the Division of Far Eastern Affairs

[WASHINGTON,] August 14, 1935.

Reference is made to TA's[28] memorandum of July 12, 1935[29] (received by FE[30] on August 13), in regard to (*a*) the possible resuscitation of that portion (approximately U. S. $32,000,000) of the Reconstruction Finance Corporation cotton and wheat credit of May 29, 1933, which, due to China's inability to absorb cotton in amounts valued at the sum indicated, was canceled, and (*b*) the proposal that the former credit be renewed, under somewhat similar terms of repayment, for the purpose of enabling the Chinese Government to purchase American cotton which the Chinese Government would in turn dispose of largely to Germany in exchange for German products destined for consumption in China.[31]

FE is of course desirous of furthering the best interests of the export trade in American cotton and has no objection *per se* to a triangular trade such as that under consideration. However, in considering this question it would seem well to bear in mind that, notwithstanding the fact that the Chinese Government has thus far effected payments on due dates in accordance with the terms of the credit agreement under reference, indications are not wanting that the entire transaction has proven to be an ill-advised move on the part of the American Government. On the part of the Chinese Government the deal was in reality an attempt to obtain through indirect

[27] See telegram No. 359, August 9, 7 p. m., from the Chargé in the United Kingdom, vol. I, p. 87.

[28] Division of Trade Agreements.

[29] Not printed.

[30] Division of Far Eastern Affairs.

[31] The Consul at Kobe, in his letter of July 15 to the Ambassador in Japan, quoted some information from Shanghai indicating that on July 4 there remained in China only 29,530 bales out of the total of 104,000 bales of cotton shipped under the Reconstruction Finance Corporation arrangement (893.48/975).

channels funds not available from other sources or by the use of other means, and as such it was criticized sharply in both China and in Japan and by Group members of the China Consortium, who viewed the transaction as a violation by an agency of the American Government of the spirit of the Consortium Agreement of October 15, 1920.[32] On the part of the American Government the transaction was an attempt to remove from the American market surplus stocks of cotton and wheat and to increase the consumption in China of the products named. Apparently the latter objective failed of attainment, as subsequent developments would seem to indicate that in effect the transaction diminished rather than increased China's consumption of American cotton.

FE of course realizes that the question of China's ability to absorb increased amounts of American cotton does not enter into the proposal under reference, as Germany is indicated as the ultimate consumer. FE, however, does not understand why the suggested triangular trade should require the extension by the RFC of credits on terms similar to those of the original credit agreement, i. e., long-term credits, as presumably the Chinese Government would sell promptly for cash the German goods received in exchange for the American cotton and thus provide itself with funds which could, and which should, be utilized to effect repayment of sums advanced under the terms of the American credit. If the transaction could be effected on a normal, commercial basis, for example, payment against documents on a 90 or 120-day basis, it is possible that many of the seeming objections to the proposal would disappear. However, if, as is suggested, the terms are to be substantially in accord with those of the original agreement, i. e., repayment by China to extend over a three to five-year period, the transaction would in effect place at the disposal of the Chinese Government a very large sum of money (in the neighborhood of 80 million Chinese dollars, depending on prevailing rates of exchange). Such a situation would in all probability be interpreted as a further violation of the spirit of the Consortium Agreement. Furthermore, it would likely entail the continued application of customs surtaxes (now imposed by the Chinese Government as a source of revenue for the liquidation of the American wheat credit of 1931 and the cotton and wheat credit of 1933), which surtaxes augment "laid-down" costs and thus affect adversely those interests, including American interests, now serving China's general import trade.

Although the transaction under discussion conceivably might increase the export sale of American cotton, there would seem to exist a distinct possibility that it might also, due to the flooding of the Chinese market with German goods, shut out from that market similar goods

[32] *Foreign Relations*, 1920, vol. I, p. 576.

which under normal conditions might be furnished by American producers.

It is believed that, reduced to its simplest factors and possible effects, this transaction, if consummated, might be of some advantage to China (provided it did not provoke and induce new manifestations by Japan of the intent of the Japanese military coercively to restrict China) and also of some advantage to Germany, but that it would not be likely to be of net advantage to the United States.

In view of the foregoing, FE does not, at least under the terms indicated, view with favor a suggested renewal of the canceled portion of the cotton and wheat credit which was extended to China by the RFC in May, 1933.

893.515/728 : Telegram

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

TOKYO, September 7, 1935—11 a. m.
[Received September 7—12:25 a. m.]

173. For the Secretary of the Treasury. Sir Frederick Leith-Ross arrived Tokyo [the] 6th. Interviewed by press stated that his mission is to study actual financial and economic difficulties of China on the spot and to report the findings to London. He emphasized that nothing definite would be attempted by the British Government until after his return to London. He stated that his visit to Japan was, first, to see the country and, second, to exchange views on the China situation with Japanese officials pointing out that Great Britain has a special desire to cooperate with Japan in the Far East.

I am informed by the British Embassy that arrangements have been made for Sir Frederick to call at the Foreign and Finance Ministries and to meet a number of the financial and business leaders next week. He is spending the week end at Chuzenji with the British Ambassador.

Inform Department of Commerce.

NEVILLE

893.515/745a : Telegram

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

WASHINGTON, September 16, 1935—3 p. m.

286. Department desires that in any contacts which you may have with Leith-Ross you adopt friendly attitude and if approached by him on official subjects be cooperative.

If he inquires whether this Government intends to send a financial attaché, reply as on your own responsibility that you "infer that it will not do so."

HULL

893.515/744 : Telegram

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

TOKYO, September 17, 1935—7 p. m.
[Received September 17—8 : 03 a. m.]

178. For the Secretary of the Treasury. Leith-Ross told me tonight that he had made no concrete proposals to the Japanese; that they had made no proposals to him, but they had told him that they would be glad to consider any plans that he could formulate to improve the financial situation in China; that their men in China would be glad to keep in touch with him, but they were not contemplating sending any special financial agent to China at this time. Leith-Ross said that he felt he had been able to dispel much of the suspicion regarding his mission which had apparently been widespread in Japan on his arrival. Beyond that he could not say that he had achieved much of anything. He is leaving for China in the morning.

Repeated to Nanking.

NEVILLE

893.515/755 : Telegram

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

NANKING, September 24, 1935—5 p. m.
[Received September 24—2 : 05 p. m.]

11. Department's 286, September 16, 3 p. m.

1. In the course of a routine social call this afternoon on the Minister of Finance the latter introduced the subject of the arrival of Leith-Ross and inquired whether the American Government intended to send a representative to work with the British representative. Kung recalled that the American Government had taken the initiative in forming the international consortium, the objective of which was, as he understood it, to prevent any one or two nations from acquiring special positions in financial matters in China. In explaining the origin of the project of the visit of Leith-Ross, Kung recalled that the British had suggested that some form of international assistance be extended to the Chinese Government and the American Government had intimated that it would be glad to give favorable consideration to a project to help China if Great Britain would take the initiative. The British had then broached the idea of a conference but the Japanese had disapproved the idea. Now the British had their representative on the spot and the Japanese when asked whether they intend to send someone replied that they could send someone in 2 days' time if this seemed advisable. He stated the French representative was due early in October.

2. I told Kung that I did not know that the Department had formed any definite intention either for or against the sending of an American representative to work with Leith-Ross but in reply to Kung's desire that I acquaint the Department with his hope that one should be sent even at this late date, I said I would. Kung thought that Leith-Ross would remain in China 2 or 3 months or longer if desired, leaving Hall Patch permanently with the British Embassy.

3. Repeated to Peiping. To Tokyo by mail.

JOHNSON

893.515/755 : Telegram

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

WASHINGTON, September 25, 1935—7 p. m.

6. Your 11, September 24, 5 p. m., paragraph 2.

1. From the Department's point of view it would have been preferable had you, in replying to the inquiry of Kung in regard to the possible appointment of an American financial expert, followed the formula given in the second paragraph of its telegram 286, September 16, 3 p. m.

With regard to Kung's reference to the historic interest of the American Government in the problems relating to the financial and monetary situation in China (see first paragraph of your telegram under reference), the general attitude of the Department remains as indicated in its telegram No. 71 of March 8 to Peiping.

2. For your confidential information, Department informed by French Embassy here that, as other countries are not following lead of British Government in sending Leith-Ross to China, the French Government is not sending Le Norcy to China.

HULL

893.515/756 : Telegram

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

NANKING, September 25, 1935—midnight.
[Received September 25—8 : 32 p. m.]

12. My 11, September 24, 5 p. m.

1. Sir Frederick Leith-Ross accompanied by British Ambassador called on me last evening. He stated that he found Chinese evidently thought he was prepared to make a loan and that in public interviews thus far given his endeavor had been to disabuse them of this idea. He stated that he expected to remain in China investigating the situation until some practical formula or plan were evolved or until he had assured himself that nothing could be accomplished in which latter

case he would leave with nothing done. I assured Sir Frederick that I would be glad to be of any assistance possible and that I would be glad to communicate any plans that might be evolved as I felt sure that the American Government would be prepared to give careful and sympathetic consideration to any proposal that might be evolved. Sir Frederick stated that of course any plan which might be evolved would have to receive international support before the British Government would be interested.

2. Leith-Ross was entertained at dinner last evening by Wang Ching-wei and proceeded to Shanghai last night accompanied by the British Ambassador.

JOHNSON

893.50A/129

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

No. 7 NANKING, September 25, 1935.
[Received October 19.]

SIR: I have the honor to submit the following report, for the Department's information, on the present status and the prospects of technical cooperation between the League of Nations and China.

Since the autumn of 1933, League of Nations' cooperation has been effected through the National Economic Council. The Council's principal fields of work are Highway Construction and Transport, Water Conservancy, Agricultural Rehabilitation, Health, the Cotton Industry, and Sericultural Improvement. The League of Nations now has technicians cooperating with the National Economic Council in its health, hydraulics, road, and sericulture departments.

Dr. A. Stampar, Yugoslavian, is the League's health expert in China. He is senior League representative and is paid by the League. In cooperation with the Central Field Health Station and the National Health Administration, he is engaged primarily in elaborating programmes for provincial health organizations and activities. He is, in particular, responsible for the health schemes in the northwestern provinces and in Kiangsi province. At the same time, he is participating in medical education activities in Nanking. Dr. Stampar is understood to enjoy the confidence and respect of Mr. T. V. Soong who at times seeks his advice on financial and economic matters. He is generally accepted as a man of exceptional ability in many fields although his speciality is health work. The Embassy has been informed that he was at one time offered the position of Premier of Yugoslavia, a position which he refused. Dr. Stampar plans to return to Europe in December. Whether he will come back to China or not is uncertain. The Japanese are reported to be bringing pres-

sure to bear on the National Government to have him replaced by a Japanese health expert.

Mr. F. J. M. Bourdrez, Dutch, is cooperating with the National Economic Council in its hydraulic engineering work. He is paid by the League and has been in China since 1932. Mr. Bourdrez is occupied at present with flood prevention and irrigation projects.

Mr. M. S. Okecki, Polish, is the League's road expert cooperating with the National Economic Council at present. He is paid by the League and has been in China since 1932. Mr. Okecki is assisting the Council in motor road construction work in the central and eastern provinces. He is sailing for Europe in the near future.

Dr. Benito Mari, Italian, is advisor at the Experimental Silk Station near Nanking and also advisor to the Silk Improvement Commission of the National Economic Council. His salary is partially paid by the League and partially by the institutions to which he is advisor. He came to China in 1932.

The League plans to despatch an expert on agricultural cooperation to China this autumn to take over the work commenced by Dr. Strickland, an Englishman, some time ago. He will assist the National Economic Council in instituting rural cooperatives, largely in central China.

There are unconfirmed reports that the League will also send three experts before the end of this year to cooperate with the National Economic Council in hydraulic engineering and road construction. The road expert presumably will take the place of Mr. Okecki.

Early this year the League sent Mr. R. Haas, French, to China on a tour of inspection with a view to obtaining a report on the work being done by the National Economic Council and making recommendations concerning future League cooperation with the Council. Although the nature of Mr. Haas' report and recommendations to the League is not known, the Embassy has been reliably informed that Mr. Haas stated confidentially to a foreign friend just before he left Nanking on his return to Geneva that (1) League cooperation with China was unsatisfactory as now conducted, (2) League representation in China must either be greatly strengthened or withdrawn entirely, (3) direct cooperation with provincial governments was preferable to the present system of working with the National Economic Council, and (4) the Council was not administered in a manner approved of by him (Mr. Haas).

The general consensus of opinion in Nanking, as gauged by the Embassy, is pessimistic with regard to the future of League cooperation in China. As reasons for this pessimism may be cited a disinclination on the part of official Chinese to "fly in the face" of Japanese

opposition to such cooperation and desire to substitute Japanese for League experts; disappointment on the part of the Chinese concerned who hoped to obtain financial as well as technical assistance from the League; and League dissatisfaction with the administration and operation of the National Economic Council. The National Economic Council is understood to have stopped its former practice of making regular reports to the League and the League carries on very little correspondence with the Council.

In addition to the League experts named in preceding paragraphs, there are also in Nanking two secretaries, Mr. Taylor and Mr. Le Dantec, in charge of the League's office here. Through this office there was recently made available by the League thirty thousand Swiss francs for travelling scholarships for Chinese interested in studying health problems and work in Europe.

Respectfully yours, NELSON TRUSLER JOHNSON

893.515/763 : Telegram

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

NANKING, September 26, 1935—11 a. m.
[Received 8 p. m.]

14. Mr. Arthur Young[33] inquired of me last night as to what attitude the American Government would adopt toward the efforts of Leith-Ross to find some plan for financial assistance to China. (Young, himself, believes that China needs a small loan to begin with to enable them to stabilize their currency situation internally and abroad). I told Young that the United States Government was prepared to give sympathetic consideration to any proposal that might be worked out and that I would be prepared to submit to my Government any suggestions that they might care to give me. I said that I thought the American Government would be prepared to cooperate with the other powers in any feasible, workable scheme. I told Young that I thought the difficulty in all of this business was to be found in the apparent inability of the Chinese Government to reach a decision as to what it wished to do; that once the Chinese Government had made a definite decision in regard to its currency policy it would be easier for the governments concerned to consider that decision and decide upon measures to cooperate.

JOHNSON

---

[33] American adviser to Chinese Ministry of Finance.

893.515/880

Memorandum by the Ambassador in China (Johnson) of a Conversation With the Standing Member of the Chinese National Economic Council (Soong)[34]

SHANGHAI, October 1, 1935.

Mr. Soong asked me whether we were sending a man to meet with Leith-Ross, the British Technical Financial Attaché. I said that there was no indication that we were sending such an Attaché.

Mr. T. V. Soong expressed the opinion, in regard to the Japanese, that they intend to take some form of drastic action in November: that they will move on to the mainland, and in any case take action to obtain control over China should a general war break out in Europe.

In regard to Hongkong, Mr. Soong stated that the Crown Colony of Hongkong was in a bad way because it had remained on silver. He said that the Hongkong & Shanghai Banking Corporation was now selling silver in the open market as fast as it could, in a desperate attempt to maintain the market. He wondered how long the bank could keep it up, and stated that Hongkong was really dependent upon the situation in China and was waiting to see what China was going to do.

NELSON TRUSLER JOHNSON

893.515/879

Memorandum by the Ambassador in China (Johnson)[35]

SHANGHAI, October 3, 1935.

In the course of conversation today the Japanese Ambassador stated that he had postponed his intended visit north because of the fact that Sir Frederick Leith-Ross was in Shanghai and he wanted to be near by. He stated that it was his opinion that Leith-Ross had an idea of linking Chinese currency with sterling. Mr. Ariyoshi thought this would be a very difficult thing to do, and commented on the fact that the political situation in China was very unstable.

He thought a loan such as that which Kung and Soong wanted would be very difficult, not only because the Chinese Government is not stable, but also because there is no security. (I have a feeling in this connection that Mr. Ariyoshi felt that the unstability of the Chinese Government was not to be deplored in so far as it prevented the making of such a loan.)

---

[34] Copy transmitted to the Department by the Ambassador in his despatch No. 57, October 25, p. 627.

[35] Copy transmitted to the Department by the Ambassador in his despatch No. 52, October 25; received November 18.

I commented on the fact that the currency of "Manchukuo" had been linked to the Japanese yen. Mr. Ariyoshi stated that this was so, but that a difference existed, in that in "Manchukuo" there was a stable government and with such a stable government it was comparatively easy to stabilize the currency by linking it with the yen.

He asked me whether the United States was sending some one out to cooperate with Sir Frederick Leith-Ross, and I said that I inferred that no one would come.

NELSON TRUSLER JOHNSON

893.515/776 : Telegram

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

NANKING, October 9, 1935—9 a. m.
[Received 4 : 19 p. m.[36]]

29. 1. In the course of conversation with the Minister of Finance, October 8, noon, I asked the Minister whether anything concrete was being evolved through the investigations now being pursued by Leith-Ross in Shanghai. Kung replied that Leith-Ross was showing genuine desire to find some practical way whereby Great Britain might extend assistance to China and had broached the subject of an international loan in which Japan and France would necessarily be partners but probably with nominal participation. Kung observed that such a plan would of course depend for success on the general willingness of the other powers to participate. Kung was vague or purposely reticent about the details but I inferred that the matter had reached the stage of tentative inquiries by the British Government and other powers concerned. This inference may have insufficient basis. Another official of the Ministry of Finance told me that nothing practical had resulted from the studies of Leith-Ross. At any rate Kung again expressed his earnest wish that an American representative of the type of Leith-Ross were present. Replying to my question Kung said that the French Government had definitely selected the former French economic representative in London to come to Shanghai to cooperate with Leith-Ross and that the French representative would probably arrive shortly after November 1st. (See Department's September 25, 7 p. m., paragraph 2.)

2. I inquired whether Leith-Ross had indicated any willingness on the part of Great Britain to extend individual assistance to China if the international plan failed. Kung replied in the affirmative but was noncommunicative and seemed anxious to center attention to the international project.

---

[36] Telegram in two sections.

3. Kung spoke at length of the urgent necessity for improving the finances of the Chinese Government and the economic and currency situation in China. He said that all these objects could be attained by one large loan secured on customs revenues and that the proceeds of the loan could be utilized (in addition to the purposes already mentioned) for funding the obligations of the Chinese Government including American. He pointed out also that agricultural and other economic rehabilitation in China would greatly increase the market for American [goods].

4. I inquired whether it was true as reported that failing to receive international assistance the Chinese Government would devise means of producing pigiron [*inflation?*]. Kung replied that some stand would have to be taken and several alternative schemes were being considered suggesting that plan which required government control of silver bullion in the country would be extremely difficult because the Chinese were accustomed to hoard silver. To Peiping and Shanghai by mail.

PECK

893.515/812

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

No. 10365 SHANGHAI, October 14, 1935.
[Received November 2.]

I have the honor to state that I have been informed by a source hitherto trustworthy that Sir Frederick Leith-Ross has voluntarily recommended to the Ministry of Finance of the National Government the issuance of subsidiary coins with a silver fineness of .500. It is interesting to note that this is the fineness of the silver coinage of the United Kingdom, and although I have no information in regard to the proposed weights of coins recommended by Sir Frederick, the adoption of his proposal would at least form an entering wedge for the assumption of a definite relationship between the pound sterling and the Chinese silver dollar, and might eventually lead to the debasement of the Chinese silver dollar from its present fineness of .880 to the proposed subsidiary fineness of .500. The coins in question would be half dollars and possibly quarters and twenty cent pieces, I inferred.

Sir Frederick's proposal comes at a time when there was reasonable ground for believing that nickel subsidiary coinage covering 20, 10 and 5 cent pieces would be put into circulation in the near future (Shanghai's telegram No. 438, July 30, 2:00 p. m.[37]).

---

[37] Not printed.

From Sir Frederick's attitude in volunteering advice to the Ministry of Finance on the subject of subsidiary coins, it appears that his instructions do not limit him to acting as an "adviser to the British Embassy", as has been stated in the Shanghai press.

EDWIN S. CUNNINGHAM

893.515/880

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

No. 57 PEIPING, October 25, 1935.
[Received November 18.]

SIR: I have the honor to refer to the Embassy's despatch No. 43 of October 22, 1935,[38] regarding the Chinese note issue, and to enclose for the information of the Department copies of four memoranda [39] by the Ambassador reporting conversations held recently in Shanghai with regard to the financial situation in China.

The general conclusions that may be drawn from those memoranda are: 1) the financial situation in China is badly deteriorated and, according to Sir Frederick Leith-Ross, there exists a grave doubt as to whether the National Government is administratively capable of controlling the situation; 2) Hong Kong is beginning to suffer as a result of China's financial weakness; and 3) the Hong Kong & Shanghai Banking Corporation has apparently become heavily committed in the Chinese financial situation through its efforts in collaboration with the Central Bank of China to maintain control of the exchange market.

At the moment of writing, near-panic conditions prevail in the Shanghai financial market. This fact is probably not unconnected with the prevailing fear of inflation that received its latest impetus when it became known about October 15 that the Bank of China had been authorized by the Finance Ministry to issue Yuan $50,000,000 in new notes. T. V. Soong subsequently made a public statement to the effect that this issue was intended merely to replace old banknotes, but this statement failed to reassure the market in the face of the obviously deteriorated state of China's finances.

Respectfully yours, For the Ambassador:
F. P. LOCKHART
Counselor of Embassy

---

[38] Not printed.

[39] For memorandum of conversation with the Standing Member of the Chinese National Economic Council, see p. 624; other memoranda not printed.

893.515/801

Memorandum by the Under Secretary of State (Phillips)

[WASHINGTON,] October 29, 1935.

The Chinese Ambassador told me that he had called last evening upon Secretary Morgenthau to inform him confidentially that the Chinese Government desired to sell 100,000,000 ounces of silver in two 50,000,000 lots. Mr. Morgenthau replied that he would give the matter consideration, would speak to the President, and would give him an answer later.

The Ambassador was particularly anxious that the State Department should know of the step which he had taken in the conference with Mr. Morgenthau.

Mr. Morgenthau has asked the Ambassador to secure for him information with regard to China's financial program.

WILLIAM PHILLIPS

893.515/802 : Telegram

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

SHANGHAI, October 31, 1935—3 p. m.
[Received October 31—6:49 a. m.]

Your 289, October 30, 7 p. m.[40] It is currently believed among American bankers and businessmen that the Chinese Government plans to attach the Chinese dollar to the customs gold unit, at a rate of Chinese dollars 2.50 for one gold unit. Mackay of National City Bank told me that he believed the Chinese Government wanted to sell its silver holdings to the United States for gold, with above end possibly in view.

JOHNSON

841.5151/455 : Telegram

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

LONDON, November 2, 1935—2 p. m.
[Received November 2—11:05 a. m.]

551. For Treasury from Butterworth.[41] The Bank of England has set up a committee of five under the chairmanship of Lord Alness, the head of the Joint Exchequer Board, which will be able to negotiate "in case of need" on behalf of British holders of Chinese

---

[40] Not printed.
[41] William W. Butterworth, Third Secretary of Embassy in the United Kingdom.

Government railway and other bonds. The amount of Chinese loans quoted in the Stock Exchange official list is over 31,000,000 pounds of which amount more than 8,000,000 pounds is either in default or in arrears for interest or sinking fund, or both.

Recent developments in China leading to a fall in the Shanghai dollar and a decline in the price of Chinese sterling securities have caused a renewal of criticism in the City and in the press of America's silver policy, which is regarded here as being mainly responsible. [Butterworth.]

BINGHAM

893.515/813 : Telegram

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

SHANGHAI, November 2, 1935—11 p. m.
[Received November 2—11 : 30 a. m.]

Arthur Young informed me today that Chinese Government was about to decide to make a unit of principal banks of issue and to take over all silver. He [asked] what attitude American banks would take. I told him I could not tell nor was I in a position to advise them. I suggested that he approach banks directly which he will do on behalf of Ministry of Finance. He said Hong Kong & Shanghai Bank was prepared to cooperate by turning over its silver holdings against Central Bank notes on advice of Leith-Ross, that an Order in Council is in process of preparation to enable it to cooperate in above described way.

This would of course mean that the Chinese Government would take over all silver reserves now held by private Chinese banks and such foreign banks as will voluntarily cooperate. Young said Chinese Government's decision would be made in next 3 or 4 days.

JOHNSON

893.515/814 : Telegram

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

SHANGHAI, November 4, 1935—9 a. m.
[Received November 4—8 a. m.]

641. Following is official summary of the Government decree passed yesterday on currency reform and Chinese financial policy:

"1. Commencing from November 4th, 1935, the bank notes issued by the three Government banks, the Central Bank of China, the Bank of China and the Bank of Communications, shall be full legal tender; payment of taxes and discharge of all public and private ob-

ligations shall be effected by legal tender notes; no use of silver dollars or bullion for currency purposes is permitted and any contravention of the provision is punishable by confiscation of the whole amount of silver seized; any individual found in illegal possession of silver shall be punishable in accordance with the law governing acts of treason against the nation.

2. Bank notes of issuing banks other than those of the three Government banks which have received previous authorization by the Minister of Finance shall remain in circulation but the total outstanding bank notes of each bank shall not exceed the amount in circulation on November 3d, 1935. The outstanding bank notes of these banks shall be gradually retired and exchanged for Central Bank of China bank notes within a period to be determined by the Ministry of Finance. All reserves held against the outstanding bank notes together with unissued or retired notes of these banks shall be handed over at once to the Currency Reserve Board; notes in process of printing shall also be handed over to the said Board upon taking delivery by the banks.

3. A Currency Reserve Board created under special ordinance shall be formed to control the issue and retirement of legal tender bank notes and to keep in custody of reserve against obtaining bank notes.

4. Commencing November 4th, 1935, banks, firms and all private and public institutions and individuals holding standard dollars, other silver dollars or silver bullion, shall hand over same to the Currency Reserve Board or its agent banks in exchange for legal tender notes at face value in the case of standard silver dollars and in accordance with the net silver content in the case of other silver dollars or silver bullion.

5. All contracted obligations expressed in terms of silver shall be discharged by the payment of legal tender notes in the nominal amount due.

6. For the purpose of keeping the exchange value of the Chinese dollar stable at its present level the three Government banks shall buy and sell foreign exchange in unlimited quantities."

CUNNINGHAM

893.515/815 : Telegram

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

SHANGHAI, November 4, 1935—noon.
[Received November 4—8 a. m.]

Reference my strictly confidential November 2, 11 p. m., I am informed the British authorities have issued an Order in Council advising British nationals to comply with the decree of the Chinese Government regarding the nationalization of silver.

JOHNSON

893.515/818 : Telegram

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

SHANGHAI, November 4, 1935—8 p. m.
[Received November 4—10:55 a. m.]

My October 29, 11 a. m.[42] and November 2, 11 p. m. I have just seen Leith-Ross and he has told me that contrary to what might be surmised from resemblance of details of decree of National Government, summarized to Department in Consul General's telegram of today's date to suggestions which he had made, reported in my telegram of October 29, 11 a. m. above referred to, he had not instigated Government's decision; on contrary he had urged Government to delay action until preliminaries had been completed; he stated that Soong and Kung had stated that they could not wait as smuggling of silver from Tientsin was continuing. As he put it, they had jumped the gun. However, he stated that it was something in their favor that they had reached a decision and had announced it, and, in order that British banks might be in a position to cooperate with what was essentially a good scheme, the British Ambassador had issued a King's regulation (it is not an Order in Council) under his authority to issue such regulations for the control of currency issued by British banks in this extraterritorial jurisdiction and for the peace and good order of British subjects. He expressed the opinion that an order in council would have to be issued later to take care of insurance contracts and rent contracts.

I explained to Sir Frederick that while I was personally sympathetic with any step taken by the Chinese Government to stabilize its financial situation and while I believed that the Government of the United States would be equally sympathetic I was without power to issue any regulations or orders applicable to American nationals under the circumstances that the American banks were private institutions and would have to be guided by their own discretion in the matter. Leith-Ross said that he understood this.

Leith-Ross remarked that he had come out originally for the purpose of obtaining information regarding the local financial situation in the expectation that such information and data as he might collect might be used in discussions with representatives of France, United States and Japan looking to a possible international loan participated in by all. He said that such international cooperation had been laid down as a condition precedent to British participation. For one reason or another France, the United States and Japan had not sent representatives, and such discussions were, therefore impossible, and he was estopped from making any proposal for a loan because of a

[42] Not printed.

complete silence on the part of the Japanese as to whether or not they would participate although he had given them every opportunity to indicate their desires. He remarked that he delayed his arrival in China by remaining in Japan with the sole idea of learning what the Japanese had in mind, but that he had been able to learn nothing. He denied categorically that the question of recognition of Manchukuo had been discussed. He agreed with me that apparently Japanese policy dictated by the military was hostile to any measures undertaken in regard to China that might originate with or be participated in by Western nations.

To the local press who have inquired I have refrained from making any statement except to say that I am without power to issue any order or regulation of similar effect to that issued by the British.

Leith-Ross appears to me to be reluctantly coming to the conclusion which I have had for some time, namely, that the Japanese military who now dictate Japan's policy in regard to China will not permit Japanese cooperation in any financial plan for China originating with and if participated in by Western countries. He proposes to visit Tientsin and North China shortly.

JOHNSON

893.515/850

Memorandum by the Under Secretary of State (Phillips)

[WASHINGTON,] November 5, 1935.

Secretary Morgenthau telephoned me this morning from his farm in New York State and told me more in detail the substance of his conversation with the Chinese Ambassador on Saturday evening.[42a]

He said that the Ambassador spent two or three hours with him and, at the end, the Ambassador wrote out in his own hand a memorandum of the conversation, which Morgenthau agreed to. The following is the substance of it:

1. The United States proposes to buy on shipboard 100,000,000 ounces of silver and, if the arrangement is satisfactory, to consider further purchases.
2. All the proceeds of these sales are exclusively for the stabilization of Chinese currency.
3. The Chinese propose to set up a stabilization committee of three experts; under a gentleman's agreement, it was understood that one member of this committee would be from the Chase Bank and the second member from the National City Bank.
4. The funds secured from the sale of silver were to be kept on deposit in New York with agents of the Central Bank of China and it was understood that this would be in an American bank.
5. It was understood that, if this proposal is mutually agreed to, the yuan will be redeemable at the election of the Chinese Government in any of the following ways:

[42a] November 2.

a) A fixed number of yuan to the American dollar, this ratio to be fixed at the outset by the Chinese Government;

b) A fixed weight of gold at $35 per ounce—a fixed weight of silver at $1.29 per ounce.

Mr. Morgenthau said that he had this morning received an answer from the Chinese Ambassador and that the only thing the Chinese Government agreed to do was to keep the money in New York; the Ambassador had explained that his Government was forced, by circumstances, to proceed without waiting for a complete understanding with the United States; Mr. Morgenthau expressed the opinion that the Chinese have "gone off half cocked"; that already they have a very bad press; that they were playing us for "suckers" in the belief that they could get our money with which to put their plans through.

The Ambassador had also sounded out Mr. Morgenthau on a straight loan and Mr. Morgenthau said he discouraged him.

Mr. Morgenthau added that the Chinese have not agreed to anything and that, apparently, they have no "ammunition" with which to put their plans through.

In conclusion Mr. Morgenthau informed me that the Ambassador had requested an interview with him in New York this afternoon but that he (Morgenthau) had replied that he would be happy to see him instead in Washington at the Treasury Department tomorrow, Wednesday, morning at 10 o'clock.

WILLIAM PHILLIPS

893.515/851

The Economic Adviser (Feis) to the Under Secretary of State (Phillips)

[WASHINGTON,] November 5, 1935.

MR. PHILLIPS: I think that the Secretary of the Treasury somewhat misjudges the situation that may develop.

The Chinese authorities apparently went ahead with their devaluation plan and only at the last moment instructed the Ambassador to ascertain whether the American Treasury would directly and immediately buy the large quantities of silver which they expect to acquire if the plan is successful. The main outlines, and the rate of stabilization, were apparently determined before the Ambassador spoke with Mr. Morgenthau.

One not completely clear point is as to whether the Chinese Government will endeavor to keep the Chinese dollar stable in terms of the American dollar or in terms of the pound or yen. For the past few months these three currencies have been relatively stable in terms of each other and the question therefore only presents a limited immedi-

ate interest. If however these three currencies should diverge substantially in value one from the other then the Chinese Government would have to make its decision.

The Chinese Government in my judgment was forced to some such move as this by steadily worsening internal conditions. It hesitated a very long time because of its doubts as to whether it could acquire control of the silver in circulation in China (replacing the silver with bank notes) and as to whether the foreign banks in China would cooperate by exchanging their silver reserves for the new bank notes. However, they apparently had no choice and have taken the plunge.

The new rate set for the Chinese dollar is very low and therefore increases the favorable chances for the success of this effort.

To come to the point as regards the position of the American Treasury—the fund which the Chinese Government will have as a supporting and reserve fund for its currency will be mainly made up of the silver bullion it acquires. There will probably be some small fraction of gold and foreign exchange. When and as it may become necessary for the Chinese Government to support the external value of the Chinese dollar it will have no choice but to offer this silver bullion on the world markets. The Treasury will then be confronted with the choice of buying this silver directly or indirectly, or seeing the world price of silver (which it has been holding stable in the neighborhood of 65 cents or somewhat) fall.

The Chinese Government may in the thought that our silver purchasing program is destined to collapse anyhow endeavor to dispose of some or all of the silver it acquires even before it might have to do so to support the Chinese dollar. In that event the Treasury would be called upon similarly to make this decision. The temptation of the Chinese Government to make an immediate profit out of this silver will be large because any such profit would greatly help it in its intense present budget difficulties.

Whether the situation will present itself to the Treasury within two weeks or whether it will be postponed for some months will depend (*a*) upon the confidence felt that the Chinese authorities can prevent inflation in China, and (*b*) upon the political developments, especially in connection with the Japanese.

H[ERBERT] F[EIS]

P. S. The morning's press seems to indicate that the action of the Chinese Government has been an unwelcome surprise to the Japanese authorities and that they are likely to exert their influence to see that the monetary reform scheme does not operate successfully. I suppose that the two ways it can influence the situation are by encouraging the Japanese banks not to give up their silver for the new note issues and by discrediting the new notes in China. If the new notes are not

willingly and confidently accepted, violent inflation might be expected in the commercial centers of China. This I suppose would suit Japanese purposes.

893.515/828 : Telegram

The Second Secretary of Embassy in China (Atcheson) to the Secretary of State

NANKING, November 5, 1935—3 p. m.
[Received 10 p. m.]

57. My 41, October 31, noon.[43]

1. According to the same official the success of the Government's currency program announced in the press yesterday depends largely upon the attitude and practice of the Japanese in regard thereto. Japanese press comments have not so far been favorably inclined but he thought the British representative had strengthened the Chinese position considerably and the Ministry of Finance hoped for American bankers' cooperation and expected such cooperation from the Chase Bank but he was uncertain as to the attitude of the National City Bank of New York. Another element which he mentioned as determining is the extent to which the Chinese people, who are traditionally hoarders of silver bullion, will themselves cooperate. He said that if the Government could obtain control of 75% of the silver, it would be possible to maintain exchange at the level desired but control of only 50% would not be sufficient because there would remain too wide a field for speculators. He expressed fear that the Japanese might engage extensively in silver operations, including outward smuggling, and that the situation might resolve itself into a competition between the Chinese and Japanese banks which would be fatal to exchange stabilization. The Japanese Ambassador, he stated, had been consulted prior to the announcement of the Chinese Government's program and had said that he would do what he could to be helpful but did not seem enthusiastic.

2. Suma has been officially quoted to me as saying the move is "worse than actual devaluation" and press reports from Canton indicate that the Chinese authorities there have at present no intention of falling in with the National Government's plan unless the present currency situation there is affected naturally by the new financial factors. It appears at least superficially that the Chinese Government is pegging its dollar at a specific value in relation either to the American dollar (as the official in question on October 31 indicated would be the case), or to the pound sterling with a view to seeking parity with the Japanese yen or a value less than that of the yen. The yuan dollar-yen

[43] Not printed.

rate is today almost at par and the official stated that the Ministry of Finance desires a United States dollar rate of .28.

3. I have been given to understand by a well-informed source either (1) that the Chinese Government had planned this move for some time and before effectuating it consulted with Leith-Ross and the British Ambassador in order to obtain British cooperation, or (2) that Leith-Ross had made the suggestion and, for lack of any other concrete hopeful plan to meet the increasingly difficult financial situation, the Chinese Government adopted it with a view to obtaining British cooperation and as a *quid pro quo* for that cooperation by giving the British position in China more "face" than it had enjoyed since the "futility" of the Leith-Ross mission had become apparent. The speed with which the British Order in Council followed the Chinese Government's announcement clearly indicates that prior consultation was had with the British.

4. Paraphrase to the Ambassador at Shanghai and Tokyo.

ATCHESON

893.515/823 : Telegram

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

SHANGHAI, November 5, 1935—5 p. m.
[Received November 5—9 : 50 a. m.]

Reference my November 4, 8 p. m. Mackay, local manager, National City Bank, informs me that he is recommending to his company that they agree in principle to turn over their silver to the Chinese Government Banks but that they will hold it until they are sure that they have been protected against all suits.

Mackay states that on November 3rd he had a conversation with Hong Kong [&] Shanghai Bank in the course of which he learned for the first time that Hong Kong Shanghai Bank was committed to Chinese plan. He is also convinced by what he has been told by Pei [44] of the Chinese Government Bank that the Hong Kong Shanghai Bank has agreed to give to the Chinese Bank credits abroad and that the Chinese plan eventually to dispose of silver to the United States Government. Mackay believes that Hong Kong Shanghai Bank must be getting some benefit to compensate them for their agreement to turn over silver and thinks it possible that this may be found in British Government's relieving bank of liability in connection with silver clauses in leases and mortgages but he does not know. Part Hong Kong Shanghai Bank has played in view of its prior knowledge of the plans of the Chinese Government remains a mystery.

JOHNSON

---

[44] Tsuyee Pei, Director of Central Bank of China.

893.515/818 : Telegram

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

WASHINGTON, November 5, 1935—6 p.m.

290. For the Ambassador. Your November 4, 8 p. m.

1. Please continue to keep Department promptly and fully informed of developments, including the attitude and action of all principally interested governments and their nationals.

2. For your information. On November 4 the First Secretary of the Chinese Embassy called at the Department and, after citing steps which he understood had been taken by British authorities directed toward compliance by British nationals with the decree of the Chinese Government in regard to the nationalization of silver, inquired what steps the American Government had in mind. Whether his inquiry was made under instruction from his Government Department was unable to ascertain. Reply was made to him substantially along the lines of the statement made by you to Leith-Ross and the statements made by you in response to inquiry (your November 2, 11 a. m. [*p. m.*], and November 4, 8 p. m.)

PHILLIPS

893.515/839

Memorandum by the Under Secretary of State (Phillips)

[WASHINGTON,] November 6, 1935.

On Secretary Morgenthau's request, I attended a conference which he had this morning with the Chinese Ambassador. Present also were Mr. Oliphant and Mr. Lockhead, two Treasury experts.

The Ambassador reported that he had received a further reply from his Government to the proposal which he had submitted to Nanking as a result of his conversation with Secretary Morgenthau on Saturday evening; his Government agreed to proposals No. 1, 2 and 4.[45] After considerable discussion Mr. Morgenthau agreed that the Chinese response to proposal 3 was satisfactorily answered in the Ambassador's cable, which was to the effect that one representative of an American bank was to be a member of the stabilization committee. Mr. Morgenthau pointed out that proposal 5 was the basic one and that there had been no answer to this proposal. The Ambassador answered that his Government would agree to the maintenance of the yuan at its present value; he admitted that nothing had been said with respect to tying it with relation to any other currency, whether the dollar, pound sterling or the yen; Mr. Morgenthau

[45] See memorandum by the Under Secretary of State, November 5, p. 632.

said very definitely that he could not agree to make the silver purchase in question unless there was a definite understanding in advance that the Chinese Government would tie up to the dollar; he pointed out that the yuan would have to tie up to either the dollar, pound sterling or yen and that all he was asking in connection with this deal was that it should be fixed to the dollar; he pointed out that, in order to carry through their program, it was necessary for the Chinese Government to put through the deal; otherwise, there would be a great loss of confidence in the yuan if it suddenly should develop that the Government of China had not the means necessary for this purpose; Mr. Morgenthau felt that the Chinese Government was putting up a good game of "poker", that undoubtedly they were bluffing, since they could not get along without the contemplated support from the American Government; he stressed his sympathy with what the Chinese Government was endeavoring to do; he said that we were glad to help, but he made it clear over and over again that the help could not be extended without the tie up to the dollar.

During the conversation the Ambassador asked whether Mr. Morgenthau would consider a loan, to which the latter replied that he could give no encouragement to any loan in which the United States was acting alone, indicating at the same time that, if other governments participated, he might give a different decision; he insisted, however, that there was no need of a loan if the Chinese Government would put through their present plan.

The Ambassador mentioned the difficulty of referring again the fifth proposal without some alteration in the language. It was agreed, therefore, that Mr. Oliphant and Mr. Lockhead (the two experts present) should draft a new proposal and bring it over to the State Department this afternoon, in order that we might, if desirable, touch it up in diplomatic language.

After the Ambassador had left we had some exchange of views with respect to the new formula for proposal five. I asked whether it would be satisfactory to avoid an announcement by the Chinese Government that they had tied up to the dollar, or at least to delay this action for a little while and so do something to "save their face". Mr. Oliphant believed that something along these lines could be done and would endeavor to include it within the new formula.

3 P. M. Mr. Oliphant brought to the Department this afternoon the accompanying draft for proposal five.[46] Mr. Hornbeck and Mr. Feis and I discussed it with Mr. Oliphant and agreed that there was nothing which this Department could add to the formula.

WILLIAM PHILLIPS

[46] Not printed.

893.515/830 : Telegram

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

PEIPING, November 6, 1935—3 p. m.
[Received 3 : 55 p. m.]

119. Embassy's No. 117, November 4, 5 p. m.[47] A responsible officer of the Japanese Embassy here stated to a representative of this Embassy yesterday that Japan has no objection to the stabilization of China's currency but would of course be considerably concerned about an inflationary move which would inevitably affect adversely Japan's export trade to China. Takahashi, Assistant Military Attaché, informed a representative of the press that the Japanese Army does not view favorably new monetary measures but that the army has not yet determined what its attitude will be in the matter of accepting the new plan. Both the Japanese and British Embassies here profess to have had absolutely no prior knowledge of the move. The Japanese attitude would seem to depend largely on the following factors: (1) Whether financial support to make the plan effective has been obtained from the British Government or private British banking interests through Leith-Ross negotiation (2) whether the measures will interfere in Japanese plans for the economic development of North China or (3) whether the trade of Japan with China as a whole will be adversely affected. It would be better to be [*sic*] well within the power of the Japanese Government to prevent the implementation of the plan in North China if they desire. To do so would require rather drastic action which might well have an important bearing on the so-called independence movement in North China.

One notice of the result so far has been a rise in the price of commodities both domestic and foreign in the Tientsin and Peiping markets as well as elsewhere. Some silver is already being exchanged over the counter for notes at Chinese banks.

Repeated to Nanking and Shanghai and by mail to Tokyo and Tientsin.

LOCKHART

893.515/835 : Telegram

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

PEIPING, November 8, 1935—2 p. m.
[Received November 8—9 : 35 a. m.]

123. Attitude of Japanese military in North China towards new Chinese monetary measures is still undefined. Believed that they

[47] Not printed.

continue to be greatly displeased because they were taken by surprise. There still exists a grave doubt that Japanese banks will conform to the new regulations. There also exists doubt in local banking circles whether the French banks will conform at least to the extent of turning over their silver to the Chinese. National City Bank has been under orders from its Shanghai headquarters not to pay out any silver but it has received no orders to turn over its silver to Chinese Government. There have been practically no silver exchange transactions in Peiping this week according to a local foreign banker and trade is practically at a standstill awaiting developments regarding Government's ability to enforce its new monetary measures.

. . . . . .

Repeated to Nanking.

LOCKHART

893.515/838 : Telegram

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

NANKING, November 9, 1935—10 a. m.
[Received 11:55 p. m.[48]]

68. According to an officer of the Japanese Embassy at Shanghai and to a well-informed Japanese civilian of that city who has close relations with the Japanese Embassy as well as with the Japanese military, the Japanese Foreign Office personnel regards the recent currency measure of the National Government with disfavor.[49]

It feels that (1) the measure was unnecessary; (2) it was kept secret from the Japanese too long; and, (3) it will not succeed, even if implemented by foreign loan. These informants do not believe that Japan would participate in such a loan. The first informant holds the opinion that devaluation of the Chinese dollar would have been a preferable measure.

2. These informants state that the Japanese diplomats have been put in an unfavorable position vis-à-vis the Japanese military because the latter believe that the diplomats were caught napping. The Japanese Embassy was given its first intimation that the matter was under consideration on November 2, but the intimation was so vague that the Embassy did not report it to Tokyo. The Embassy was informed only on the afternoon of November 3 that the measures would be made public the following morning. The military believe that an understanding was reached between the British and the Chinese prior to announcement and that the Japanese diplomats ought to have known what was going on. The Japanese diplomats on the other

[48] Telegram in two sections.
[49] End of first section; repeated to Peiping and copy sent to Tokyo by mail.

hand profess to believe Leith-Ross' and Kung's assurances that the Japanese authorities were informed as early as the British authorities.

3. The informants stated that the Japanese military are angry over the new measure. According to the second informant, the Japanese military officers in Shanghai have expressed to him the belief that the purpose of the Chinese officials concerned is either eventually to concentrate as much silver as possible in Szechuan (presumably in preparation for resistance against Japanese pressure) or else to concentrate the silver in Hong Kong for their own selfish ends. Both informants state that the Japanese military will do their best to prevent silver from leaving Hopei Province.

4. The seeming failure of the Japanese diplomats to keep themselves and the military informed of monetary developments in China and to continue to report course of those developments has probably further weakened the influence of the diplomats with the military. The chief reasons for the dissatisfaction of the military would appear to be, (1) the independent spirit exhibited by the Chinese in this instance; (2) the alleged receipt of assistance from a western nation (Great Britain) in so important a matter; and (3) fear that the new measure may work to the disadvantage of Japan's financial situation.

5. Japanese officials have shown considerable interest in the questions; (1) whether the American Government has received prior notification of the new measure; and, (2) what if any official advice had been given to American banks.

To Tokyo and Shanghai by mail.

JOHNSON

893.515/854a : Telegram

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

WASHINGTON, November 13, 1935—8 p. m.

17. This afternoon Treasury Department reached agreement with Chinese Ambassador on the following arrangements:

"(1) All proceeds from sales of silver to the United States Treasury will be used exclusively for stabilization of Chinese currency.

(2) That funds secured from sale of silver to the United States Treasury be kept on deposit in New York with agents of Central Bank of China (it is understood that both the National City Bank and the Chase National Bank be used for this purpose).

(3) That the United States Treasury representative in Shanghai (Professor Buck) will be given fullest information as to the disposition and employment of the Stabilization Funds and that the United States Treasury be kept fully informed during the next 12 months as to monetary developments through him.

(4) That the United States Treasury agrees to purchase up to 50 (fifty) million ounces of silver .999 fine at 65⅝ cents per ounce less all the expenses of delivery to United States Mint at San Francisco, payment of this silver to be made upon delivery of the silver on board United States Steamship at Shanghai, free of any export tax or duty. This silver may be delivered by the Chinese Government on or before February 11, 1936."

Please inform Buck. It is not intended to give any publicity whatsoever either as to the existence or details of this arrangement.

HULL

893.515/866 : Telegram

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

NANKING, November 15, 1935—11 a. m.
[Received 12:30 p. m.]

78. Suma came to see me last evening and while discussing Sino-Japanese situation stated that Japanese were very disturbed about decision of Chinese Government to nationalize silver. His statement to me convinced me that he was convinced that National Government's decision was made upon some understanding apparently with the British and United States that a loan, probably not participated in by the Japanese, would be forthcoming from the British and/or United States to furnish the basis for contemplated currency stabilization. I told Suma that I had not participated in any discussions of a loan; that the only prior information I had of the National Government's intention was that received on November 2, communicated to the Department in my November 2, 11 p. m. from Shanghai, and that I then understood that a similar communication had been simultaneously made to the British, French and to the Japanese.

Suma stated that he got the impression that the United States on November 2nd had given its consent to a loan. I told Suma that no mention of a loan was made to me on November 2nd nor had I discussed with any one any specific loan nor had specific proposal for a loan been laid before the American Government other than the general suggestion made by the British Government last spring, which I understood had been simultaneously communicated to the French and to his Government. I inferred from Suma's attitude and statements that all along he has been laboring under the conviction that the United States and Great Britain were committed to a loan to China to assist in currency stabilization.

Suma stated that on November 2nd, when information was communicated to Ariyoshi by Chang Chia-ao,[50] the Chinese were told that

[50] Also known as Chang Kia-ngau, managing director and general manager, Bank of China.

Japan opposed the Chinese plan for silver nationalization; that Ariyoshi asked Chang point-blank whether a foreign loan had been arranged and that Chang said that a loan was being considered. Suma said that British Ambassador, when asked whether a loan had been made, denied the existence of a loan. Suma stated that he had a conversation with Leith-Ross on the 13th and that he asked Leith-Ross whether a loan had been made and that Leith-Ross stated that he had been discussing with the Chinese the possibility of a loan, but that no concrete proposal had been arrived at. He said that he asked Leith-Ross what England would do if the United States and Japan refused to participate in a loan and financial chaos followed. (Suma believes that the Chinese will be unable to carry out stabilization and that financial chaos will result in the course of a few months; that nationalization decree has already resulted in independence movement in Canton, North China and Shantung where independent currency control banks have been set up.) He said that Leith-Ross replied that he did not know; that such chaos would result in great harm to British business and all business and that he hoped that the banks would do what they could to help. Suma stated that he told Leith-Ross that the present situation was due to a misunderstanding of Chinese psychology, as the Chinese apparently had acted on the assumption that an international loan would be made. Suma stated that he told Leith-Ross that a loan for Chinese currency stabilization was a very difficult matter; that stabilization depended on restoration of confidence and that confidence could only be restored if the Government could be stabilized. Suma expressed to Leith-Ross doubt as to possible stabilization of Chinese Government, as there were quarrels at home and abroad Sino-Japanese relations were very bad indeed.

From above conversation, I carried away the impression that the Japanese are very angry over alleged British support of steps to stabilize currency taken by the Chinese without Japanese consent. Suma stated that Japan would be very cautious in its statements and attitudes, but I must confess that Suma gave me the impression that Japan would do nothing, by way of cooperation, in making Chinese stabilization plans a success.

Repeated to Peiping, to Tokyo by mail. JOHNSON

893.515/867 : Telegram

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

SHANGHAI, November 15, 1935—8 p. m.
[Received November 15—1 : 40 p. m.]

676. While meetings of foreign bankers of Shanghai have not led to any agreement, I am reliably informed that the attitude of the

banks toward surrendering silver to Chinese Government is substantially as follows: British and American banks willing if others accede, Continental banks willing on payment of reasonable amount fee to cover their losses in holding silver and Japanese banks very reluctant as they seem to have opinion that recent currency changes will not work out satisfactorily.

Repeated to Embassy. Mail copy Nanking.

CUNNINGHAM

893.515/887 : Telegram

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

PEIPING, November 21, 1935—1 p. m.
[Received 3 : 40 p. m.]

168. Embassy's 160, November 19, 5 p. m.[51] Following from Yunnanfu:

"November 20, 4 p. m. Referring to the Embassy's telegram November 9, 11 a. m. to Canton.

Yunnan having its own monetary system independent of the Central Government, this province is not affected by the nationalization of silver and there has been little comment engendered thereby. Yunnan silver currency continues to circulate".

Repeated to Nanking.

LOCKHART

893.515/890 : Telegram

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

NANKING, November 22, 1935—10 a. m.
[Received November 22—10 a. m.]

103. 1. In conversation yesterday afternoon Suma informed me that during the conference with Chiang Kai-shek on November 20 Ariyoshi and Suma dwelt at length on the Chinese monetary decree of November 3. They told Chiang they did not think the scheme would succeed and asked the opinion of Chiang who disclaimed expert knowledge. They said that Japanese suspicions were aroused by the prior notification given another power and pointed out that Japan was always ready to discuss such matters with China with a view to individual action by Japan or joint action with other nations. (Suma reiterated to me his own belief that the scheme could not succeed without a loan to maintain currency reserves and while he was confident that the international loan for which he said the British were

[51] Not printed.

working would not eventuate mainly because of the reported inability of France to participate, he thought it probable that the Chinese are trying to obtain from some source funds to support note issues.) Replying to his question regarding the probable attitude of the American Government toward the international loan project I replied "I thought the American Government would be interested if the other three Governments supported the idea but I did not know whether Chinese bonds would find market in the United States."

2. Suma said that the attention of Chiang was called to the confused administrative situation in North China where at least four all-Government organs function without a guiding superior organ and numerous Chinese ex-leaders are plotting for personal advantage and it was suggested to Chiang that some sort of special administration for that area would be advantageous. He said that the replies of Chiang to the observations made by Ariyoshi and himself on all subjects were evasive as they always are. (Suma remarked to me that these affairs are of course matters of domestic interest to China but the proximity of North China to Japan makes disorderly conditions there a subject of legitimate concern to Japan.)

3. To Tokyo by mail. Repeated to the Department, Peiping and the Ambassador.

PECK

841.5151/463 : Telegram

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

LONDON, November 22, 1935—6 p. m.
[Received November 22—3 : 40 p. m.]

584. For Treasury from Butterworth. I have obtained under conditions of strict confidence from a reliable source, information that an instruction has recently been sent at Leith-Ross' request by the British Treasury to Bewley,[52] to explain to the American authorities something of Leith-Ross' activities in China. It is pointed out therein that after the preliminary conversations Leith-Ross inquired (1) whether the Chinese were prepared to devalue or (2) whether they were prepared to peg to a foreign currency. When the answer was received that they were prepared to peg to sterling, Leith-Ross pointed out the necessity of a balanced budget, a strengthening in the Chinese banking system, et cetera. But before [the matter] could be properly gone into, action was taken by the Chinese (see my 566, November 12, 6 p. m.[53]). The instruction authorizes Bewley to point out the desira-

[52] Thomas Kenneth Bewley, Financial Adviser to the British Ambassador in the United States.
[53] Not printed.

bility of American cooperation and asks (1) whether the United States would take part in rendering foreign financial assistance to China; and (2) whether the United States would give China assurances of its willingness to purchase Chinese silver in the near and intermediate future.

I gather that the British authorities are disturbed at the course which events have taken, and that the divergence between the Foreign Office and British Treasury remains. This is reflected in the unusual concluding paragraph of today's *Times* editorial on autonomy in North China:

"In these circumstances all that this country can usefully do is to press for two requirements. One is that any seceding province should admit and assume liability for its fair share of the Chinese foreign debt, a case in point being that of the loans secured on the customs revenue. In effect Manchukuo has repudiated these liabilities and every endeavor should be made to prevent a repetition of its virtual default. The second British requirement is equality of opportunity in Northern China. The 'open door' in Manchukuo has so far proved to be an exit rather than an entrance for British trade, and, though British interests in Northern China have little left to lose—owing primarily to Chinese misgovernment—that little is still well worth salvage. Finally it is to be hoped that some closer liaison will be established between the general trend of British diplomacy in the Far East and the well-meant attempt to give British assistance in reforming the finances of China. The sequel to Sir Frederick Leith-Ross' mission suggests that it was a blunder to send a Treasury expert for this purpose to Nanking when neither the United States nor Japan nor France were prepared to follow suit. His mission was misinterpreted, it may be purposely, by the soldiers who are the real masters of Japan; but that misinterpretation might have been foreseen."

I understand that the British authorities have approached the French and urged that the two Franco-Chinese banks give up their silver holdings to the Chinese Government at the internal price. Inasmuch as these banks have not used their privileges to issue currency notes, the French have refused to accept this suggestion.

I am told that Leith-Ross now would like to leave China, but inasmuch as he, and in a measure British prestige in China, have advertently or inadvertently become linked with the Chinese currency experiment, he does not feel free to depart under prevailing circumstances.

Foreign exchanges continue active and erratic. When the franc reached 75 1/16, the British control intervened vigorously and maintained the rate at 74 15/16. Gold continues to flow from Paris to New York, and shipments from Holland to New York have also been effected. Gold at 141 shillings 3 pence; amount 120 bars. [Butterworth.]

BINGHAM

841.5151/465 : Telegram

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

LONDON, November 25, 1935—8 p. m.
[Received November 25—6 : 10 p. m.]

590. For Secretary Morgenthau from Butterworth. In a conversation with an official of the British Treasury, he mentioned that a telegraphic instruction had recently been sent to Hong Kong recommending in effect that it adopt for the time being a managed currency, not directly pegged to sterling but to the Shanghai dollar. He also stated that the British Treasury had received a telegraphic report from Bewley of his interview with you, which, however, did not seem to clear up one question, namely, that since Hong Kong had 100,000,000 ounces of silver which it intended to market, it did not wish to undertake such marketing operations in a manner which would prove inconvenient to the potential buyer; at the same time it wished to effect such sales within a reasonable length of time. Therefore, as a purely business proposition, it was desirable to know whether the American authorities had any suggestions to make on the *per mensem* amount which might be placed on the market. While it was necessary to dispose of this silver as soon as possible, there was no desire to "dump" it on the market and thus create difficulties.

I was asked to convey this information, and I agreed to communicate with him as soon as a reply was received. [Butterworth.]

BINGHAM

893.48/1021

Memorandum by Mr. Raymond C. Mackay of the Division of Far Eastern Affairs

[WASHINGTON,] November 27, 1935.

In the course of a conversation by telephone on November 26 between Governor Myers of the Farm Credit Administration and Mr. Hornbeck it was decided that Mr. Mackay should call upon Governor Myers to discuss with him the recent request of the Chinese Government [54] that a revision be made in the schedule of payments covering the obligation of the Chinese Government incurred in connection with its purchase from the Grain Stabilization Corporation in 1931 of certain quantities of wheat and flour.

---

[54] The Chinese Ambassador on November 18 addressed notes to the Farm Credit Administration and the Reconstruction Finance Corporation, respectively, requesting a revision in the schedules of payments of Chinese Government obligations; neither printed (893.48/1015, 1016).

Mr. Mackay called upon Governor Myers on November 27 and stated that there would appear to exist no reason why the question of the postponement of the obligations under reference should not be decided solely on its own merits; that he desired to offer no recommendations, either for or against such postponement; that he wished merely to sketch briefly certain factors in the situation which possibly might not be known to the Farm Credit Administration.

Governor Myers stated that he appreciated this evidence of cooperation on the part of the Department of State; that he wished, however, to preface the discussion by a statement that, after careful consideration of the matter, he perceived no grounds upon which could be justified a compliance with the request of the Chinese Government; that under existing rulings a postponement of any payments due to the Farm Credit Administration, which Administration, unlike the Reconstruction Finance Corporation, is an integral part of the American Government, would not be permitted unless the public interest would be served by so doing; that in this instance it did not appear that the public interest would be served; that, on the contrary, a postponement to 1960 of the maturity dates of the Chinese obligations would, in his opinion, lessen the value of the obligations and the chances ultimately of obtaining payment; that in any event the sums outstanding form a part of a revolving fund required for other purposes; and that, although he would be prepared to refrain from raising any serious objection if, due to extreme financial embarrassment, the Chinese Government should default on its payments for a period of say three to six months, the proposal, as made to him by the Chinese Ambassador, was "out the window".

Mr. Mackay agreed that a postponement for 25 years of the date on which the account with the Chinese Government should finally be liquidated might operate to lessen the value of the obligations; that, on the other hand, there should be taken into consideration the possibility that, if postponement is not agreed to by the Farm Credit Administration, the Chinese Government may at once cease all payments. Mr. Mackay added that, if a postponement of payments should be agreed to, the funds thus freed might be utilized by the Chinese Government either to meet its general running expenses, 48½ per cent of which in 1934 was incurred by the military, or to satisfy the more insistent demands of other foreign creditors, particularly Japanese and British creditors. Mr. Mackay also pointed out that the revenues during 1932, 1933 and 1934 of the Flood Relief Surtax approximated $47,000,000 Chinese currency, which sum, at prevailing rates of exchange, exceeds materially the total indebtedness of the Chinese Government to the Farm Credit Administration.

Mr. Mackay indicated the possibility that, from the point of view of the Farm Credit Administration, the credit under discussion was confined to that of a straight business transaction; that, from the point of view of the Department of State, additional factors would have to be taken into consideration; that, as Governor Myers was aware, the silver policy of the United States had occasioned in China considerable adverse comment; and that it would be gratifying to the Department if, without endangering American interests in any way, it were found possible for the American Government to assist the Chinese Government in its endeavors to solve the perplexing problems with which it is now confronted. Mr. Mackay stated that the Chinese Government is indebted not only to the Farm Credit Administration and to the Reconstruction Finance Corporation but also to many private American creditors, in consequence of which, and in the event that the Farm Credit Administration should decide to accede to the request of the Chinese Government for a postponement of payments due on the wheat credit of 1931, the Department of State would wish to be so informed in advance of notification to the Chinese Government in order that this substantial concession to the Chinese Government might be utilized in an endeavor to effect suitable arrangements for the ultimate liquidation of other outstanding American accounts. Mr. Mackay cited, as a single example of such accounts, the so-called "Chicago Bank Loan" which matured in 1921 [55] and on which no payments of any kind have thus far been made by the Chinese Government.

Governor Myers stated that he believed that he understood clearly the position of the Department of State and that, if he should decide to permit a postponement of payments due on the wheat credit of 1931, he would be prepared, before making any announcement thereof, to grant such time as the Department of State might require to make its own terms with the Chinese Government; that he greatly appreciated the very evident desire of the Department of State to cooperate with him; but that in the absence of additional factors, which might cause a reversal of the decision already reached, the proposal of the Chinese Government was, as he had previously stated, "out the window".[56]

[55] See *Foreign Relations*, 1921, vol. I, pp. 374 ff.

[56] On December 2, Mr. Mackay held a conversation along the same lines with Mr. S. H. Sabin, R. F. C. Counsel (893.48/1022).

893.48/1020 : Telegram

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

SHANGHAI, December 3, 1935—3 p. m.
[Received December 3—7 : 30 a. m.]

727. For Hornbeck from Young.

"Consider reasonable Chinese Government's desire spread over extended period principal payments flood relief obligations given for sale surplus wheat instead of payment over 6,000,000 American dollars next 13 months. You will recall Chinese Government voluntarily allocated surtax as security and last year repaid one-third of principal. Extension particularly important in view of purposes this transaction, reference difficulties here and importance creating conditions favorable to currency reform. Strongly hope for favorable action this matter and similarly Reconstruction credit. Young."

DAVIS

893.515/917

The Economic Adviser (Feis) to the Secretary of State

[WASHINGTON,] December 3, 1935.

MR. SECRETARY: You will remember that the Treasury agreed to buy 50,000,000 ounces of silver from the Chinese Government.

The Treasury now informs me that no deliveries have been made to them as yet. Apparently little new silver has been turned over to the Chinese Government. What they have to sell would be primarily what was already in the possession of Chinese banks. After some days' delay, the Chinese Government said that they would make some deliveries but asked that the American banks in Shanghai handle the actual physical transaction—taking it out of the vaults of the Bank of China and putting it on an American ship. The contract reads that payment is to be made by the American Treasury only when the silver is actually on board an American ship in Shanghai. The Treasury has refused to modify this contract.

The best conjectures as to the reasons why the Chinese authorities have tried to bring about the change of procedure are either (*a*) they would welcome having the American banks appear in this way in the transaction—thereby presumably disclosing indirectly the confidential purchase arrangement with the Chinese Government, or (*b*) they are afraid that the Japanese Government would protest if they undertook the actual physical transfer.

I venture to say that I am confident the Department agrees with the Treasury decision.

H[ERBERT] F[EIS]

893.48/1026

Memorandum by Mr. Raymond C. Mackay of the Division of Far Eastern Affairs

[WASHINGTON,] December 14, 1935.

The Chinese Ambassador at Washington, by letter under date November 18, 1935,[57] requested of the Farm Credit Administration a material revision of the schedule of payments covering the obligations of the Chinese Government incurred in connection with its purchase in 1931 of certain quantities of wheat and flour. A similar request, also under date November 18, 1935,[57] was made by the Chinese Ambassador of the Reconstruction Finance Corporation in connection with the obligations of the Chinese Government incurred in connection with its purchase in 1933 of certain quantities of cotton and wheat.

The Department has now received for transmission to the Chinese Ambassador letters from the Reconstruction Finance Corporation and the Farm Credit Administration[58] in reply to the aforementioned communications from the Chinese Ambassador.

In the case of the R. F. C. cotton and wheat credit of 1933, the Corporation has indicated that it is prepared to grant to the Chinese Government, in addition to the period provided for in the covering agreement, a further period of two years in which the account may be liquidated. This concession was envisaged but not guaranteed by the R. F. C. in its agreement with the Chinese Government under date May 29, 1933.

In the case of the wheat credit of 1931, payments in regard to which, under the existing agreement, should be completed on December 31, 1936, the F. C. A. has offered to make a very material concession by extending the period within which the account may be liquidated to September 30, 1939. It has also agreed to a sliding scale of payments which, for example, would call for a payment on December 31, 1935, of only $250,000 as compared with $3,070,942.18 called for under existing arrangements.

Before informing the Chinese Ambassador of the concessions which the R. F. C. and the F. C. A. are prepared to make to the Chinese Government, it would seem highly desirable that further thought be given to the question of those certain obligations of the Chinese Government to American creditors which, notwithstanding repeated protestations on the part of the American Government, have remained in default—with little or no indication by the Chinese Government of concern—over a period of many years. In some cases, notably in connection with indebtedness incurred on large purchases of American

[57] See footnote 54, p. 647.
[58] Neither printed.

railway materials by agencies of the Chinese Government, new agreements, greatly in the favor of the Chinese Government, have been accepted by American creditors in order that they might obtain at least some payment for goods thus supplied. However, in one case, that of the so-called "Chicago Bank Loan of 1919",[59] the Chinese Government has, since the date of the loan's maturity in 1921, failed to effect any payments whatsoever, either by way of principal or of interest.

The "Chicago Bank Loan" was made to the Chinese Government by the Continental and Commercial Trust and Savings Bank of Chicago, Illinois, under the provisions of a loan agreement and a supplemental agreement bearing the date October 11, 1919. It was issued in amount of $5,500,000 U. S. currency and was evidenced by "Republic of China Six Per Cent Two-Year Secured Gold Loan Treasury Notes of 1919". It was secured by the Chinese Government in respect both to principal and interest "by a direct charge on the Revenues of the Tobacco and Wine Public Sales Tax of the Chinese Government"; by a direct charge on the "Goods tax receipts from the provinces of Honan, Anhwei, Fukien and Shensi, whether receipts be in the nature of likin taxes, transportation taxes or other taxes or imports of like nature"; and, in the event of a deficiency of funds derived from the Tobacco and Wine Tax, by agreement on the part of the Chinese Government to "make good such deficit from other sources of its revenue". The Chinese Government has not only failed to effect liquidation of this loan but, in disregard of the loan agreement, it has not obtained the bank's assent to the extinction of the likin taxes pledged. Furthermore, upon its effecting of such extinction, it failed to provide other and satisfactory security.

It would appear that the Department bears a special responsibility toward the holders of the Chinese Treasury Notes which were issued to the American public in connection with the loan under discussion. This responsibility arises from the fact that the Department on October 21, 1919, complied with a request of the Continental and Commercial Bank for a statement which was so phrased as in effect to attract the investing public to the Chinese loan issue to which it referred and which statement was in fact made a part of the prospectus issued by the bank. That the Department's statement contributed toward inducing the investing public to purchase the Chinese Treasury Notes offered by the bank is evidenced by testimony in the Department's files of which a typical example appears in a letter addressed to the Department on November 19, 1935, by one of the note holders who refers to himself as a purchaser who was "induced in large measure to buy these notes on account of a letter furnished by

[59] In reference to loan negotiations, see *Foreign Relations*, 1919, vol. I, pp. 505 ff.

your department to the Chicago bank when it sold us the loan".

Parenthetically it may be stated that, insofar as the Department is aware, the Chinese Government has never denied its responsibility in connection with, or the validity of, the Chicago Bank Loan—an attitude in sharp contrast to that which, until recently, has characterized the viewpoint of the Chinese Government in regard to the notorious Nishihara Loans [60] which were of Japanese origin. Notwithstanding this fact, the American loan remains completely neglected whereas, according to a despatch under date November 13, 1935, from the American Embassy at Peiping,[61] the Chinese Government is reported to have decided upon payment of 4,500,000 yen in settlement of one of the Japanese loans under reference.

Under these circumstances and in view of the foregoing, it is believed that the Department should, by the use of all appropriate and practicable means, continue in its endeavors—and make special effort—to cause the Chinese Government to proceed toward fulfillment of its admitted obligations in connection with the Chicago Bank Loan. To this end, it is suggested that the Chinese Ambassador at Washington be informed orally to the effect that, whereas the American Government, in conformity with its constant desire to afford, whenever appropriately possible, assistance to the Chinese Government, would wish to comply, insofar as the circumstances may permit, with the Chinese Government's request for a postponement of payments due on the wheat credit of 1931 and the cotton and wheat credit of 1933, it seems desirable, before final consideration is given to the matter, to ascertain whether the Chinese Government would be prepared to give positive assurance that it will proceed toward liquidation of the Chicago Bank Loan. It is suggested that the Chinese Ambassador be further informed that, in view of the disturbed political and financial situation in China, it is not expected that the Chinese Government will, at this time, effect payment in full of the loan under reference; that it is expected, however, that the Chinese Government will provide adequate security to replace that which was withdrawn in contravention of the terms of the loan agreement; that, although the Department observes with gratification the apparent improvement in the financial position of the Chinese Government which has rendered possible the reported settlement, among other outstanding obligations, of at least one of the Nishihara loans, there exists in sharp contrast to such developments the fact that American holders of the Chinese note issue under reference have, over a period of many years, been shown by the Chinese Government no consideration; that the Department bears a special responsibility toward the holders of the Chinese Treasury Notes which were issued to the American public in connec-

[60] See *Foreign Relations*, 1918, pp. 122–123, 130–133, 147–148, 155–159.
[61] Not printed.

tion with the loan under discussion; and that, although the American Government should not be expected to provide special inducements to cause the Chinese Government to meet its just obligations to American creditors, the material concessions which the American Government may, under the conditions named, be in position to grant in connection with the postponement of payments due on the wheat credit of 1931 and the cotton and wheat credit of 1933 would in effect free for other uses substantial sums of money which should, in the opinion of the Department, be utilized at least in part to effect a prompt initial payment and to make provision for later payments at periodic intervals on the Chicago Bank Loan.

893.515/935 : Telegram

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

SHANGHAI, December 18, 1935—2 p. m.
[Received 2:20 p. m.]

770. Referring to my 734, December 5, 3 p. m.[62]

1. Japanese Consular police in Shanghai have recently been very active against silver runners. On December 14th, 140 runners were taken from a Japanese ship about to sail and it is understood that they were compelled to surrender the silver they carried amounting to nearly 250,000 silver dollars to Shanghai Japanese banks in exchange for paper notes of same face value. Editorially commenting on the action of the Consular police the *North China Daily News* on December 16th states *inter alia* "The Japanese authorities have indicated no desire to take police court action against the smugglers and although nothing was done on Saturday other than ordering the smugglers to change their money into legal tender this announced determination to act against them should have a corrective effect on a situation which has gradually been growing worse" and the *China Press* this morning *inter alia* "A refreshing sign of cooperation which the Chinese have long expected from their Island neighbors" and that smugglers "of Chinese nationality can be easily dealt with according to law but others like the Japanese must be enjoined by their own Consular officials. With the hearty cooperation of the local Japanese a great hinderance to the complete enforcement of the Government policy is done away with and the prospect of its ultimate success is made so much brighter."

2. This Consulate General was unofficially informed yesterday by a Japanese Consular officer that about 600 silver runners remain in Shanghai. Some Chinese estimate the number to be at least twice that many. So long as they remain in Shanghai they constitute a

[62] Not printed.

potential source of trouble to Japanese officials through becoming destitute or otherwise.

Repeated to Peiping, mail to Nanking.

DAVIS

893.515/937 : Telegram

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

PEIPING, December 19, 1935—5 p. m.
[Received December 19—8:30 a. m.]

235. Embassy's 170, November 22, 5 p. m.[63] The Embassy is reliably informed that there was a strong demand for foreign currencies in the market today and that the Central Bank of China sold a total of 200,000 pounds sterling chiefly to Japanese buyers. The same source states that the Salt Bank whose president is the new Minister of Industries has been directed to buy 500,000 pounds (sterling) through its various branches in China within the next 2 months covering in terms of Shanghai currency. Two possible implications of these facts are that informed quarters anticipate (1) an early decline of the Chinese dollar, and (2) the possible severance of financial relations between North China and the rest of the country.

To Tokyo by mail.

JOHNSON

893.48/1027

Memorandum by the Chief of the Division of Far Eastern Affairs (Hornbeck) of a Conversation With the Chinese Ambassador (Sze)

[WASHINGTON,] December 19, 1935.

I requested of the Ambassador that he call at his convenience. The Ambassador came in this morning. After an exchange of observations with regard to items in the news today, I read to the Ambassador as an oral statement the statement of which a copy is here attached.[64] I emphasized the point that this was to be regarded as an oral communication but that he might use the copy which I was giving him as a basis for such communication as he might decide to make to his Government. I then handed the Ambassador copies of the illustrative schedules of which copies are here attached.[63] I emphasized the point that the whole matter was tentative and that we were anxious to have some clear evidence of interest and concern on the part of the Chinese Government with regard to outstanding obligations of the kind referred to in the oral statement. There followed some discussion of ways and means, and at an appropriate point I men-

[63] Not printed.
[64] *Infra.*

tioned the "Chicago Bank Loan" as a case in point. I then gave the Ambassador a carbon copy of the factual statement with regard to the Chicago bank loan.[66] The Ambassador volunteered the statement that the Chicago bank loan was essentially in a class by itself; he said that if he had been Minister in Washington at the time that loan would not have been concluded. I asked him whether he would care to say just why. He replied that his Government should not have been borrowing at that time and that he, in London, advised against the conclusion there of similar loans which were proposed and that his advice was accepted.

. . . . . .

I said to the Ambassador that in any communication which he might make it would be desirable that he make his own recommendation to his Government; that if he mentioned any one loan or group of loans he should do so as on his own initiative and responsibility. The Ambassador said that he would follow that suggestion, but that his Government did not pay much attention to his recommendations. I said that I felt that his word carried a good deal of weight in Nanking. I said that we felt and we were sure that he agreed with us that it is definitely to China's disadvantage to permit the Chinese Government's credit to fall further and further into disrepute through negligence in regard to outstanding obligations and especially in regard to those where the sums of money involved are not considerable and where the Chinese Government itself has destroyed the original securities and might with a little exertion on its part make substitution of other securities.

. . . . . .

S[TANLEY] K. H[ORNBECK]

893.48/1027

Oral Statement by the Chief of the Division of Far Eastern Affairs (Hornbeck) to the Chinese Ambassador (Sze) on December 19, 1935

Referring to the requests made by the Chinese Ambassador, on behalf of his Government, of the Farm Credit Administration and of the Reconstruction Finance Corporation for alterations, favorable to the Chinese Government, in the agreements concluded in connection with the Chinese Government's purchase in 1931 of certain quantities of wheat and flour and that Government's purchase in 1933 of certain quantities of cotton, wheat and flour,—

It is well known to the Ambassador and to his Government that the American Government has been and is sympathetically disposed to-

[66] *Post*, p. 658.

ward the Chinese Government and the Chinese people and that this Government has on many occasions given evidence of its desire to be appropriately helpful to China. This Government would wish, whenever it is appropriately possible, to be sympathetically considerate in regard to problems of finance which confront the Chinese Government. We believe that we have given ample proof during recent years that such is our attitude. We would wish to be responsive, insofar as the circumstances may permit, to the present requests of the Chinese Government for a postponement of payments due on the wheat credit of 1931 and the cotton and wheat credit of 1933.

Conceivably, such responsiveness might, in the case of the Reconstruction Finance Corporation credit, take the form of an extension by two years and, in the case of the Farm Credit Administration credit, of an extension by approximately three years of the periods within which the respective accounts may be liquidated. It might also be found possible to arrange in connection with the Farm Credit Administration credit a sliding scale of payments which, for example, would call for a payment on December 31, 1935, of as little as $250,000 as compared with $3,070,942.18 due under existing agreements.

The American Government, in giving sympathetic consideration to those requests of the Chinese Government which relate to the subject of outstanding obligations, recalls that there have been over a period of many years numerous instances in which the Chinese Government has failed to give due consideration to various of its obligations to American creditors. We are aware that in certain cases, notably in connection with indebtedness incurred on large purchases of American railway materials by agencies of the Chinese Government, new agreements, although greatly in favor of the Chinese Government, have been accepted by American creditors in order that they might be assured of payment for goods long since supplied. However, there are cases in which the Chinese Government has not only permitted outstanding accounts of American creditors to remain wholly in default but it has also, in disregard of applicable agreements, effected the extinction of at least a part of the security offered and has failed to provide other and satisfactory security.

Under these circumstances, it is to be hoped that, if the American Government should be in position to comply, in the manner suggested, with the requests under reference of the Chinese Government for a postponement of payments due on the American credits of 1931 and 1933, the Chinese Government would wish to give positive assurance that it will proceed toward liquidation of obligations to American creditors. To that end it would not seem too much to expect of the Chinese Government that, although it may not at this moment be in position forthwith to effect payment in full of such obligations, it will nevertheless provide adequate security in place of securities

which have been withdrawn in contravention of the terms of the loan agreements and will begin making payments on such loans and will make provision for later payments at periodic intervals until the obligations are liquidated.

893.48/1027

The Department of State to the Chinese Embassy[67]

The "Chicago Bank Loan" was made to the Chinese Government by the Continental and Commercial Trust and Savings Bank of Chicago, Illinois, under the provisions of a loan agreement and a supplemental agreement bearing the date October 11, 1919; it was issued in amount of $5,500,000 U. S. currency and was evidenced by "Republic of China Six Per Cent Two-Year Secured Gold Loan Treasury Notes of 1919"; it was secured by the Chinese Government in respect both to principal and to interest "by a direct charge on the Revenues of the Tobacco and Wine Public Sales Tax of the Chinese Government", by a direct charge on the "Goods tax receipts from the provinces of Honan, Anhwei, Fukien and Shensi, whether receipts be in the nature of likin taxes, transportation taxes or other taxes or imports of like nature" and, in the event of a deficiency of funds derived from the Tobacco and Wine Tax, by agreement on the part of the Chinese Government to "make good such deficit from other sources of its revenue".

The Chinese Government has not only failed to effect liquidation of this loan or to make any payments on it, but, in disregard of the loan agreement, it effected the extinction of a part of the security (likin) without having obtained the bank's assent to the extinction thereof and it has failed and neglected to provide other and satisfactory security.

893.48/1031

Oral Statement by the Chinese Ambassador (Sze) to the Chief of the Division of Far Eastern Affairs (Hornbeck) on December 27, 1935

With reference to the two notes under date of November 18, 1935, sent through the Department of State to the Farm Credit Administration and the Reconstruction Finance Corporation respectively asking for an extension of the principal payments on the Grain Stabilization Loan and also the Reconstruction Finance Loan, and the oral statement of the Department of State of December 19th last, the

[67] Handed to the Chinese Ambassador December 19 by the Chief of the Division of Far Eastern Affairs.

Minister of Finance appreciates the willingness of the Government of the United States to adjust the schedules of payments so as to take account of China's economic and financial situation, but it is found that the schedules proposed by the American Government are somewhat inadequate to meet the present situation.

It is the desire of the Minister of Finance to have a longer extension than that proposed so as to take care of the heavy principal payments maturing within the next five years.

Pending negotiations, the Ministry of Finance will pay on December 31, 1935, to the Farm Credit Administration a quarter million dollars United States currency.

As first step toward the settlement of the debts to American nationals the Minister of Finance desires to have contact with some representative authorized to negotiate with reference to the Chicago loan with a view to its settlement as soon as practicable.

[WASHINGTON,] December 27, 1935.

893.48/1031

Oral Statement by the Chief of the Division of Far Eastern Affairs (Hornbeck) to the Chinese Ambassador (Sze) on December 27, 1935 [68]

Referring to the oral statement made by the Chinese Ambassador to Mr. Hornbeck on December 27,—

It is deemed necessary to point out that the American Government, in the discussions which have followed upon the presentation of the Chinese Embassy's two notes of November 18, 1935, has not proposed any schedules; that the Chief of the Division of Far Eastern Affairs of the Department of State orally informed the Chinese Ambassador on December 19 that it might be possible to arrange for certain modifications of the existing agreements, along certain lines; but at the same time, he stated that the American Government sought an indication of a definite disposition on the part of the Chinese Government to take appropriate steps toward the liquidation of various of the outstanding obligations of the Chinese Government to American private creditors. As matters stand at present, there will be due to the Farm Credit Administration on December 31, 1935, the sum not of a quarter of a million dollars United States currency but of something over three million dollars United States currency.

[68] This amended statement was substituted for a substantially identical oral statement made to the Chinese Ambassador on December 27, with the exception of the last sentence, which read: "It may with warrant be queried: why should an additional burden thus be put upon the creditor; and are there not much more practicable and obvious methods by which evidence could be given of the Chinese Government's good intention."

It is not perceived that the statement that the Chinese Minister of Finance desires to have contact with some representative authorized to negotiate with reference to the Chicago Loan with a view to its settlement as soon as practicable affords any clear evidence of a definitely responsive attitude on the part of the Chinese Government to the suggestion conveyed in the conversation of December 19. Should a representative of the creditors be called upon to proceed to China; and if such a representative did so proceed, would there not be likely to ensue developments embarrassing to the Chinese Government?

[WASHINGTON,] December 27, 1935.

893.48/1029 : Telegram

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

SHANGHAI, December 30, 1935—4 p. m.
[Received December 30—7 : 56 a. m.]

800. For Hornbeck from Young.

"Reference my message December 3. Earnestly hope authorities concerned agree receive reduced payment flood obligation December 31st pending completion negotiations. I have assisted prepare terms forwarded today which I consider mutually fair in all the circumstances. Reduction of current flood and reconstruction loan payments is desired in order to assist decrease deficit thereby strengthening finances with a view to avoid inflation and currency depreciation with serious consequences. Consequently increase of payment on defaulted obligations should be gradual with principal deferred beyond 1940 in view of heavy loan and indemnity obligations next five years and because it would be short-sighted for creditors to insist upon payments beyond China's capacity conservatively considered. Moreover China cannot establish a precedent of payment on particular obligations which could not be applied, with appropriate regard to different circumstances, to defaulted obligations as a whole since it would become discrimination. Therefore hope those concerned will acquiesce in acceptance 250,000 December 31st thus affording substantial and greatly needed current relief." [Young.]

DAVIS

893.48/1033

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

[WASHINGTON,] December 31, 1935.

On December 19 the Chinese Ambassador called and Mr. Hornbeck made to the Ambassador a statement in the course of which Mr. Hornbeck said:

"Conceivably, such responsiveness might, in the case of the Reconstruction Finance Corporation credit, take the form of an extension by two years and, in the case of the Farm Credit Administration credit, of an extension by approximately three years of the periods within which the respective accounts may be liquidated. It might also be found possible to arrange in connection with the Farm Credit Administration credit a sliding scale of payments which, for example, would call for a payment on December 31, 1935, of as little as $250,000 as compared with $3,070,942.18 due under existing agreements."

Mr. Hornbeck continued with a statement calling attention to certain facts connected with obligations of the Chinese Government to American creditors. Mr. Hornbeck then said:

"Under these circumstances, it is to be hoped that, if the American Government should be in position to comply, in the manner suggested, with the requests under reference of the Chinese Government for a postponement of payments due on the American credits of 1931 and 1933, the Chinese Government would wish to give positive assurance that it will proceed toward liquidation of obligations to American creditors. To that end it would not seem too much to expect of the Chinese Government that, although it may not at this moment be in position forthwith to effect payment in full of such obligations, it will nevertheless provide adequate security in place of securities which have been withdrawn in contravention of the terms of the loan agreements and will begin making payments on such loans and will make provision for later payments at periodic intervals until the obligations are liquidated."

Mr. Hornbeck handed the Ambassador specimen schedules of the possible plan of payments for the two items of indebtedness under reference.

On December 27 the Chinese Ambassador called and made to Mr. Hornbeck an oral statement in the course of which the Ambassador said:

". . .[69] but it is found that the schedules proposed by the American Government are somewhat inadequate to meet the present situation.

"It is the desire of the Minister of Finance to have a longer extension than that proposed so as to take care of the heavy principal payments maturing within the next five years.

"Pending negotiations, the Ministry of Finance will pay on December 31, 1935, to the Farm Credit Administration a quarter million dollars United States currency.

"As first step toward the settlement of the debts to American nationals the Minister of Finance desires to have contact with some representative authorized to negotiate with reference to the Chicago loan with a view to its settlement as soon as practicable."

In reply, Mr. Hornbeck stated

". . . that the American Government, in the discussions which have followed upon the presentation of the Chinese Embassy's two notes

[69] Omissions indicated in the original memorandum.

of November 18, 1935, has not proposed any schedules. The Chief of the Division of Far Eastern Affairs of the Department of State orally informed the Chinese Ambassador on December 19 that it might be possible to arrange for certain modifications of the existing agreements, along certain lines; but at the same time, he stated that the American Government sought an indication of a definite disposition on the part of the Chinese Government to take appropriate steps toward the liquidation of various of the outstanding obligations of the Chinese Government to American private creditors. As matters stand at present, there will be due to the Farm Credit Administration on December 31, 1935, the sum not of a quarter of a million dollars United States currency but of something over three million dollars United States currency."

Mr. Hornbeck further stated that it did not seem to him that the statement that the Chinese Minister of Finance desired to have contact with some representative authorized to negotiate with reference to the Chicago loan afforded any clear evidence of a sympathetically responsive attitude on the part of the Chinese Government to the suggestion conveyed in the conversation of December 19. He queried whether the creditor should be called upon to proceed to China and whether, if the creditor did so proceed, there would not be likely to ensue developments embarrassing to the Chinese Government. The Ambassador gave clear indication that he shared the doubt which these queries suggested. Mr. Hornbeck suggested that there were more practicable and obvious methods by which evidence could be given of the Chinese Government's good intention.

There followed a lengthy conversation between the Ambassador and Mr. Mackay in the course of which the Ambassador evolved and put forward certain ideas with regard to the possible handling of the question of the Chicago Bank Loan. In consequence of this, after a telephone coversation with Mr. Hornbeck, the Ambassador on December 28 asked Mr. John Abbott of the Continental Illinois National Bank and Trust Company of Chicago to come to Washington and on December 30 Mr. Abbott conferred with the Ambassador and later with Mr. Hornbeck and Mr. Mackay.

On the morning of December 30, Mr. Hornbeck received through the Shanghai Consulate General a personal telegram from Mr. Arthur Young, adviser to the Chinese Ministry of Finance, in which Mr. Young made a personal plea for acceptance by the American Government of payment on December 31 of $250,000, and in the course of which Mr. Young made the statement:

"Moreover China cannot establish a precedent of payment on particular obligations which could not be applied, with appropriate regard to different circumstances, to defaulted obligations as a whole (,) since it would become discrimination."

On the afternoon of December 30 information was received by the Farm Credit Administration that the Central Bank of China had instructed the Chase National Bank of New York to proffer on December 31 $250,000 and, if this sum was not accepted, to pay the whole sum of $3,000,000 plus due on that date. The Farm Credit Administration informed the Department of this fact and asked the Department's advice.

Also on the afternoon of December 30, the Chinese Ambassador called Mr. Hornbeck on the telephone and said that on the basis of conversations which he had had with Mr. Abbott, he had telegraphed his Government making recommendations with regard to a plan of payment for the Chicago Bank Loan.

Mr. Hornbeck then telephoned to Governor Myers of the Farm Credit Administration and suggested that the F. C. A. ask the Federal Reserve Bank in New York whether they could arrange to receive a payment on December 31 of $250,000 as a "part payment" on the amount then due and have the Chase National Bank retain and hold on deposit the remainder of the sum of $3,000,000 plus which was due, pending the concluding of arrangements which were under consideration by the F. C. A. for an extension of time with a new schedule of payments. The F. C. A. undertook to make this attempt.

On the morning of December 31 at 9:30 Mr. Hornbeck (Mr. Mackay being present) called the Chinese Ambassador on the telephone and informed him that "arrangements have been made in New York whereby it will not be permitted that the Chinese Government be put in default." The Ambassador asked whether Mr. Hornbeck had received a telegram from Arthur Young. Mr. Hornbeck replied that he had. The Ambassador said that H. H. Kung had asked Dr. Arthur Young to send that telegram, urging acceptance of payment of $250,000. The Ambassador further said that Kung had telegraphed to him suggesting that, with regard to the Chicago Bank Loan, there be made an offer to give to the bondholders new bonds on a basis which would disregard outstanding interest and would provide for payment of interest on the new bonds at a rate of four per cent. The Ambassador said that he did not like this suggestion and that he had telegraphed back expressing his view that this suggestion was of doubtful value and would not be acceptable and urging that the suggestion which he had telegraphed yesterday be given serious consideration.

At 11:10 on December 31 Governor Myers called Mr. Hornbeck and said that he was advised from New York that the Federal Reserve Bank must receive definitively either the sum of $250,000 or the sum of $3,000,000 plus. Governor Myers asked again for advice.

A conference was immediately held among officers of FE, and the facts in the case were laid before the Secretary of State. The conclu-

sion was reached that, all of the above recorded developments being taken into consideration, together with other factors, it would be advisable for the F. C. A. to take payment of the full amount due and enter negotiation later for an extension of time in connection with payments later due.

At 11:45 Mr. Hornbeck called the Chinese Ambassador on the telephone and inquired whether the Ambassador had known that the whole amount was lying in the bank in New York ready for payment. The Ambassador stated that he had known that, but that, on the basis of the statement which Mr. Hornbeck had made to him this morning, he had at once telegraphed to the Chase National Bank to make payment of interest due and $250,000 (only) on principal. Mr. Hornbeck pointed out that the statement which he had made had been nothing more nor less than that "arrangements had been made in New York whereby the Chinese Government would not be permitted to go into default." The Ambassador stated that if payment of the whole sum was required it would put him in a very embarrassing position. Mr. Hornbeck said that he would discuss the matter with the F. C. A.

At 11:55 Mr. Hornbeck (Mr. Mackay being present) called Governor Myers on the telephone and stated that we had given the situation consideration and had talked it over with the Secretary, and that, although we felt that the decision should be and must be that of the F. C. A., we leaned to the view that, all circumstances being considered, it would be our suggestion that the F. C. A. take the full amount due and prepare a new offer with regard to the balance later due. Governor Myers said that if we had no objection he felt that the F. C. A. would better take the full amount. Mr. Hornbeck said that we certainly would have no feeling of objection.

MEASURES TAKEN BY THE UNITED STATES FOR THE PROTECTION OF AMERICAN LIVES AND PROPERTY IN CHINA[70]

893.00/12918: Telegram

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

PEIPING, January 9, 1935—3 p. m.
[Received January 9—6:30 a. m.]

11. Following telegram has been sent to the Consul General at Hankow:[71]

"January 4 [?], 2 p. m. Your January 5 [?], 10 p. m., regarding communist men [*menace?*] to Szechwan.

Telegraphic reports from Canton and Yunnanfu and other information received by the Legation indicate that large Red forces have

[70] Continued from *Foreign Relations*, 1934, vol. III, pp. 462–490.
[71] Paul R. Josselyn.

crossed Wu River in Kweichow, are reported to have captured Tsunyi, and now occupy region between Chenyuan and Tsunyi, Kweichow, where they are in a strategic position to advance north or northwest along several routes into Szechwan. Canton reports that military authorities there believe that these Reds will endeavor to enter Szechwan with the purpose of effecting junction with Reds in northern Szechwan. If Red forces now in Kweichow, or even a large group thereof succeed in entering Szechwan, and particularly if they are able to effect junction with Reds in northern Szechwan, the situation as regards Americans in Szechwan will become most serious.

The Legation has received information which indicates that the National Government is sending troops into Szechwan in order to deal with the communist men [*menace?*] and especially in order to prevent Reds from crossing Yangtze. Please endeavor to obtain confirmation regarding any action taken by the Government or any movements of National Government troops into Szechwan.

Legation is concerned over safety of Americans in Szechwan and requests that you follow situation closely and report by radio any information you may be able to obtain regarding developments. If and when situation warrants, the Legation suggests that you consider the advisability of issuing a general warning to Americans in Szechwan to consider withdrawal while lines of communication remain open."

GAUSS

893.00/12923 : Telegram

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

PEIPING, January 12, 1935—noon.
[Received 12:25 p. m.]

14. Reference Legation's 11, January 9, 3 p. m., the following from the Consul General at Hankow:

"January 11, 5 p. m. Your January 9, 2 p. m., and January 11, 2 p. m. No recent information. Capture by Reds of Tsunyi and Meitan was definitely confirmed to me by Governor Chang Ch'un. He stated that the National Government will send five or six divisions to Szechwan 'if necessary.' Other information is that Szechwan troops plus National Government forces now in Szechwan borders will endeavor to prevent Reds from Kweichow entering the province and that decision whether additional National Government forces are sent will depend on recommendations of general staff corps now en route Chungking. Reported that Chiang Kai-shek will establish headquarters at Ichang.

Opinion is that Reds from Kweichow will not penetrate into Szechwan soon.

Copies of letters of warnings to Americans in Szechwan forwarded to the Legation with despatch of January 8th. I shall take no further action at present."

From information received from other sources the Legation is not inclined to share Josselyn's opinion that the Reds from Kweichow will

not soon penetrate into Szechwan. It is reported that Reds are opposed on Szechwan border only by unreliable provincial troops. Josselyn has been informed of Legation's view and instructed to follow situation most carefully.

It appears from a despatch just now from Hankow that warning notices were sent by that office to Americans in Szechwan on November 20 and December 27.

GAUSS

893.00/12926 : Telegram

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

PEIPING, January 16, 1935—10 a. m.
[Received January 16—2 : 55 a. m.]

21. Legation's 18, January 15, 2 p. m.[72] Legation has sent the following telegraphic instruction to the Counselor of Legation at Nanking:[73]

"January 15, 6 p. m. Please deliver following communication to the Foreign Office in the form of a memorandum:

'In view of alarming reports of the movements and activities of large forces of alleged Chinese Communist bandits in and around Szechwan Province, the American Legation is much concerned over serious menace to the safety of American citizens in that region, and requests that the National Government will take prompt and effective action to ensure the full protection of American citizens and their property in Szechwan and neighboring areas.'

Repeated to Hankow for information."

GAUSS

893.00/12927 : Telegram

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

PEIPING, January 16, 1935—11 a. m.
[Received January 16—6 : 01 a. m.]

22. Legation's 21, January 16, 10 a. m. Following from American Consul at Hankow:

"January 15, 5 p. m. No information Szechwan developments. I telegraphed General Liu Hsiang today giving names of places where Americans reside in Szechwan and requesting information whether any of those places dangerous for Americans in order that I may inform them accordingly. I also requested him to instruct by telegraph local authorities to protect Americans and insure their safe conduct to places of safety should it become necessary for them to leave.

I am sending by air mail third warning letter to one American in each mission station and institution in Szechwan outside Chungking. Warning telegrams sent to Suifu, Nanki and Kiangtsing."

---

[72] Not printed.
[73] Willys R. Peck.

U.S.S. *Palos* Chungking reports January 15 that general opinion there is less pessimistic.

GAUSS

393.1111 Stam, John C./29 : Telegram

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

NANKING, January 17, 1935—noon.
[Received January 17—10:15 a. m.]

6. 1. On January 16, 5 p. m., I mailed to the Legation a report of a conversation at the Foreign Office held the same afternoon during which I was informed that the Ministry had received an official report that four of the communist soldiers who murdered the Stams [74] had been apprehended, had confessed participation in the crime, and had been executed.

2. I have today again consulted the director of the European and American Department who made this statement hoping to get further details. Briefly he replied that this report was received from the Anhwei Provincial Government about 2 weeks ago and had not been communicated to the American Minister because the Ministry had sent for and was awaiting full transcripts of the record of the statements of the executed men and other details in order to be able to make a comprehensive reply to the American Legation. I pressed the director to state whether the Ministry believed that the executed men were actually among the murderers but he would only reiterate that the report had been officially received from the Anhwei Provincial Government. I expressed amazement that so important an item of information had not been immediately conveyed to the American Legation and stated that the Department is impatiently awaiting an account of the measures taken to apprehend the Stam murderers.

3. The Foreign Office has not released this information to the public.

PECK

393.1111 Stam, John C./30 : Telegram

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

PEIPING, January 17, 1935—8 p. m.
[Received January 17—12:30 p. m.]

26. Reference Nanking's No. 6 of January 17, noon, concerning Stam case. The following telegram has been sent to Peck.

"January 17, 8 p. m. Your January 17, noon. The Legation is skeptical of truth of this report, and will be interested to examine

[74] For details, see *Foreign Relations*, 1934, vol. III, pp. 497–490, *passim*.

whatever proof may be offered by the Foreign Office to support it. Please avoid making any statement at the Foreign Office suggestive of acceptance of or satisfaction with any such report or statement."

GAUSS

893.00/12935 : Telegram

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

PEIPING, January 26, 1935—noon.
[Received 5:35 p. m.]

37. Consul General at Hankow telegraphed January 23, noon, that the commander of the U. S. S. *Guam* at Ichang reported that the Yangtze Rapids Steamship Company had decided that if requested by the Chinese authorities it would transport troops on the upper Yangtze; also that British vessels had been instructed not to transport troops. Josselyn reported that the commander of the Yangtze Patrol had informed him that he would remove armed guards from American ships carrying troops.

Legation instructed Josselyn January 23, 8 p. m., that there has been no change in the American position as set forth in the Legation's October 28, noon, quoting Department's 358, October 27, 1933.[75]

Josselyn telegraphed January 25, 4 p. m., that *I Ping*, American vessel, will carry 600 troops from Ichang to Wanhsien on next trip. It is understood that these are National Government troops proceeding to Szechwan to oppose Communists.

British Legation states that it will not assist British shipping companies in any arrangements they might wish to make concerning transportation of troops but that it would raise no objection if the companies considered it expedient to do so and that it would lend diplomatic assistance if Chinese refused to carry out any agreement made with companies. British Legation states that British ships have not yet carried troops during present situation.

GAUSS

893.00/12941 : Telegram

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

PEIPING, January 29, 1935—5 p. m.
[Received January 29—9:35 a. m.]

47. Reference my 37, January 26, noon.

[1.] The Legation has now received a formal note from the Ministry of Foreign Affairs communicating the request of the Ministry

[75] *Foreign Relations*, 1933, vol. III, p. 537.

of Military Administration that the foreign diplomatic representatives be asked to instruct their shipping companies to permit the hiring of their vessels to assist in the transportation of Government troops to Szechuan to deal with the Communist menace, the Chinese vessels available being inadequate to supply the full needs of the Government.

2. The Legation proposes, subject to the Department's approval, to reply that under the treaties American vessels are not required to transport Chinese troops and that the Legation is unable, therefore, to instruct American owners of vessels to make them available to the Chinese authorities for that purpose.

3. As the American vessels apparently propose to carry these Chinese troops the effect of this reply [is] simply to reserve our rights under article 28 of the treaty of 1844.[76]

4. Legation is informed that the British Legation is not replying to the Foreign Office note for the time being but is communicating its contents to the British shipping companies with the suggestion that they act as they consider that their interests best dictate. British attitude toward this matter differs from ours, so far as taken, in that British authorities have indicated a willingness to support British companies in order to ensure enforcement of any agreement for transporting troops entered into between them and the Chinese authorities. While we might decide to do likewise, I do not believe that any assurance on the point should be tendered to the American companies.

GAUSS

893.00/12941 : Telegram

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

WASHINGTON, January 29, 1935—6 p. m.

27. Your Nos. 37, January 26, noon, and 47, January 29, 5 p. m. The Department concurs in your proposed reply to the Ministry of Foreign Affairs.

The Department's position in regard to the transportation of Government troops as set forth in its No. 358, October 27, 1933, 4 p. m.[77] remains unchanged. The Department also concurs in the view expressed in the last sentence of your telegram No. 47, January 29, 5 p. m. and considers that the Legation should not inform American companies of the contents of the Foreign Office note.

HULL

---

[76] Hunter Miller (ed.), *Treaties and Other International Acts of the United States of America*, vol. 4, pp. 559, 568.

[77] *Foreign Relations*, 1933, vol. III, p. 537.

893.00/12971

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

No. 3314 PEIPING, January 31, 1935.
[Received February 25.]

SIR: I have the honor to refer to the Legation's telegram No. 21 of January 16, 10 a. m., in which there was quoted a telegraphic instruction sent by the Legation to the Counsellor of Legation at Nanking, directing that he deliver a memorandum to the Foreign Office regarding the menace to the safety of American citizens resulting from the movements and activities of Communist-bandits in and around Szechwan Province. A copy of the memorandum sent by Mr. Peck to the Foreign Office, dated January 16, 1935, was forwarded to the Legation with his despatch No. 567 of January 16, 1935. Copies of this despatch [79] were sent by him directly to the Department.

There is now enclosed for the completion of the Department's records a copy of a memorandum dated January 26, 1935, from the Ministry of Foreign Affairs,[79] in reply to the Legation's memorandum above-mentioned. There is quoted in this reply a telegram from Chairman Liu of the Szechwan Provincial Government, in which he stated that conditions were peaceful in Szechwan and that heavy forces had been stationed along the Szechwan-Kweichow border to prevent the entry of the Communists.

Respectfully yours, C. E. GAUSS

393.1111 Stam, John C./47: Telegram

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

WASHINGTON, February 5, 1935—6 p. m.

35. Your 26, January 17, 8 p. m. and despatch No. 3234, January 4,[80] the last received. Please send by naval radio a summary of the steps taken and the results attained to date by the Chinese Government as a consequence of the Stam murder and a statement of the Legation's opinion whether the action taken by the Chinese Government is all that might reasonably be expected in the circumstances. Has the Chinese Government given any acceptable assurances that any persons connected with the murder have been punished?

HULL

---

[79] Not printed.
[80] Despatch not printed.

393.1111 Stam, John C./48 : Telegram

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

PEIPING, February 6, 1935—7 p. m.
[Received February 6—1 : 35 p. m.]

65. Department's 35, February 5, 6 p. m. Acting Minister of Foreign Affairs informed Peck during conversation on December 31st that the murder of the Stams had at the very outset been brought to the attention of General Chiang Kai-shek who had sent large reenforcements of troops to Anhwei to suppress the communists. (See Nanking despatch 703, December 31 to the Department.[81])

The Military Attaché of the Legation was informed by the Vice Minister of War during conversation at Nanking on January 21st that the communist forces operating in southern Anhwei which were responsible for the Stam murders are being pursued by two National Government divisions and that the Reds had been split into several small groups and had taken to the mountains where they are now surrounded.

In a despatch dated February 2 Peck forwarded a news report dated January 30 stating that some 3000 Reds who had been operating in southern Anhwei and western Chekiang had recently been captured by Government troops and that Fang Chi Min the leader of one of the two groups considered responsible for the Stam murders had been taken prisoner.

Legation is instructing Peck by telegraph to call upon the Acting Minister for Foreign Affairs and request information concerning the action taken by the Chinese Government to apprehend and punish the perpetrators of the crime. Peck is being told again to impress upon the Acting Minister that the American Government is seriously concerned over the outrage and to request an early reply to the Legation's note of January 2nd.

Reference Nanking's No. 6, January 17, noon, Peck reported by despatch that he had urged the Foreign Office to make available as soon as possible any information concerning the apprehension and punishment of the Stam murderers.

GAUSS

393.1111 Stam, John C./51 : Telegram

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

PEIPING, February 9, 1935—10 a. m.
[Received 10 : 55 a. m.]

69. Reference Legation's 65, February 6, 7 p. m. concerning Stam case. Peck reports February 8, noon, that following a request made

[81] Not printed.

under instructions of the Legation for an interview with the Acting Minister of Foreign Affairs to discuss this case, he has now received and is forwarding to the Legation a copy of note from the Foreign Office dated February 7th with voluminous enclosures reporting progress in the case. Peck has translated one section only of the note as follows:

"With regard to the punishment of the murderers, telegrams have been received from the National Military Affairs Commission and the Anhwei Provincial Government stating as follows: 'On December 14, a brigade under Wang Yao Wu pursued the bandits to Tang Chia Chiao and fought a severe battle during that entire day. More than 400 bandits were killed, and over 100 were taken captive. The captured bandits were severely questioned, one by one. Among them, four bandits named Na Nai Feng, Chiang Ping Fu, Chu Mao Tou, Hung San Yuan, confessed frankly that they had taken part in the murder of an American citizen and his wife at Miaoshou. These bandits were sent to Tunki where they were tried by the court martial of the field headquarters of the Chairman of Anhwei provincial Government and were definitely found to be the murderers in the case in question. They were sentenced to death, and were executed on the spot on December 22, 1934, in order to manifest the rigor of the law.' The murderers in this case, therefore, have been punished according to law with the extreme penalty."

The note and enclosure will be translated as soon as possible after receipt at the Legation and report will be made to the Department by radio.

Meantime I venture the comment that it is amazing that if 400 of these communist bandits were killed, 100 taken prisoners and 4 identified and punished by death on December 22nd as the murderers of the Stams there has so far been no public announcement of the fact by the Chinese Government.

Peck is being instructed by radio that he need not press his request for an interview with the Acting Minister for Foreign Affairs until the Legation has received and examined the Foreign Office note and instructs him further by mail, meanwhile he should observe and report promptly if any information is released to the press by the Government of the apprehension and punishment of the Stam murderers.

GAUSS

393.1111 Stam, John C./60 : Telegram

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

PEIPING, February 13, 1935—11 a. m.
[Received February 13—9 : 10 a. m.]

73. Reference Legation's 69, February 9, 10 a. m. concerning the Stam case. Legation has now received and translated the Foreign

Office note of February 1st [*7th*] with enclosures consisting of the statements of the Tsingteh Magistrate, the Chairman of the Tsingteh Chamber of Commerce, one local petty official, Chinese pastor Lo, the two Stam servants, and the four alleged murderers.

The note first outlines the action taken by the Foreign Office to request the military council and the Anhwei Provincial Government to devise means to effect the rescue of the Stams later, when it learned of their death, to apprehend and punish the murderers and rescue the child. It also stated that Kuangson Young, a special inspector of the Foreign Office, was instructed to conduct an investigation and then proceeds to summarize the result of the investigation along the following lines:

(1) Tsingteh is in an isolated mountainous section of southern Anhwei, with poor communication facilities and no telegraph or telephone service. The communist bandits who fled from Kiangsi were defeated on the Chekiang border by Government troops and fled into southern Anhwei, persistently pursued by Government troops, who recaptured Tsingteh the day after it was taken by the Reds and, learning that the Stams had been carried off by the Reds, pushed on to Miaoshou where on December 8th they engaged the Reds in "desperate battle" for "four long hours". The Foreign Office claims that the Government troops exhausted all efforts to rescue the Stams. This statement is unconvincing.

(2) The note then presents the testimony of the Tsingteh Magistrate that he informed Stam last September that although the situation at Tsingteh was then quiet the neighboring districts were frequently disturbed by communist banditti and he advised Stam not to come to Tsingteh until the spring but Stam and his family came to Tsingteh unexpectedly in November and were told by the Magistrate that they could reside there only temporarily. Early in the morning of December 6, the Magistrate received a report that the Reds were moving toward Tsingteh. At 7 a. m. he sent the Chairman of the Chamber of Commerce to warn Stam to leave immediately and shortly after 8 a. m. he sent a petty officer with a further warning to the same effect. The Reds reached Tsingteh about 11 a. m. He opposed them with his small defense force for several hours but was finally overwhelmed and the city was taken. The Foreign Office points out that the Magistrate's statement concerning the warnings sent to Stam is confirmed by the testimony of the Chairman of the Chamber of Commerce, the local petty officer and the two Stam servants.

(3) The next paragraph was translated by Peck and repeated to the Department in my 69, February 9, 10 a. m.

(4) Foreign Office claims Chinese Government does its best at all times to protect foreign missionaries who go into the interior and states that not only the Stams but also about 40 Chinese were murdered.

The note states: "The Chinese Government regrets extremely that Chinese and foreigners encountered this cruel fate." Apart from this there is no especial expression of regret at the murder of the Stams. Foreign Office adds that due to poor communication facilities and the great number of bandits the Magistrate was at the time unable to prevent the sudden occurrence but he was actually responsible for the protection of the locality and has been removed from office.

Foreign Office says that this incident cannot be compared with an ordinary case of premeditated murder and is connected with Communist activities which the Government is continuing vigorously to suppress.

The Legation has carefully examined the statements of the Magistrate, Chairman of the Chamber of Commerce, the petty local official and the Stam servants and is inclined to accept the assertion that the Stams were warned by the Magistrate to leave Tsingteh on the morning of December 6 before the communists reached that town.

The Legation is also satisfied that substantial Government forces in Anhwei are actively attempting to suppress Reds in that area. This activity does not result from the Stam murders but is part of the communist suppression campaign.

As to the four alleged murderers their statements are very brief and to the effect that they were soldiers of the Seventh Red Route Army and that the four of them killed the Stams, the leader of the group saying that they did so "acting under instructions". These statements are most unconvincing and as I have previously commented to the Department it is most surprising that the Chinese Government has omitted to make any press statement on the matter.

Subject to the Department's approval the Legation proposes to acknowledge receipt of the Foreign Office note, stating that it is being communicated to the Department, pointing out meanwhile that the record of the examination of the four men executed as the murderers of the Stams fails to show that any attempt was made to ascertain under whose instructions the Americans were killed by these men and urging that further strict investigation be made to identify the person or the persons responsible for the Stam murders and to pursue, apprehend and punish them for this heinous offense.

The Legation proposes further to instruct Peck to deliver this note personally to the Acting Minister of Foreign Affairs and orally to emphasize importance which the Legation attaches to the apprehension and punishment of the Red bandit leaders responsible for the outrage. The Legation believes at the same time Peck should inquire why, in view of the gravity of this matter, the Chinese Government has made no public statement on the identification and punishment of the four Reds who murdered the Stams under instructions. I am

of the opinion that the Chinese Government should if possible be forced to make public on its own responsibility the information which it asks us to believe that the Stam murderers were apprehended and punished.

In my opinion the facts of this case do not justify any demand for indemnity. There is no suggestion that the relatives of the Stams will ask for any such indemnity.

GAUSS

893.00/12996

The Counselor of Legation in China (Peck) to the Chargé in China (Gauss) [82]

NANKING, February 13, 1935.

DEAR MR. GAUSS: In the course of a conversation I held with Dr. S. S. Liu, Director of the Department of European and American Affairs of the Foreign Office, on February 13, he said he would like to take the occasion to say to me that the Ministry had been very disappointed at the tone of the Legation's note of January 30, 1935,[83] replying to the request of the Foreign Office that instructions be issued to American commercial vessels on the Yangtze to assist in the transportation of troops to Szechwan to take part in the anti-Communist campaign. Dr. Liu said he wondered whether Vice Minister Dr. Hsu Mo had ever remarked to me that the Ministry could not but be struck by the habit of the American Legation of continually referring to the stipulations of the treaties.

I replied that since Dr. Liu had raised this subject, I would like to give him some of the background of this matter of troop transportation on the Yangtze. I then recalled the fact that during the past ten or fifteen years there had been constant factional warfare in Szechwan and explained that foreign nations had felt that the only way to protect their vessels from becoming embroiled in these factional struggles was to dissuade them from carrying troops and to protect them in their treaty right to object to being commandeered for this purpose. I recalled that it is common knowledge that the business of the China Merchants Steam Navigation Company on the Yangtze had been ruined by the frequent compulsory use of its vessels for troop transport. Dr. Liu said he thought the loss of the Company had been caused by the failure of the Government to pay for such use, and not by the use itself.

---

[82] Copy transmitted to the Department by the Minister in China in his despatch No. 3373, February 19; received March 23.

[83] Not printed; see paragraph 2, telegram No. 47, January 29, 5 p. m., from the Chargé in China, p. 668, and Department's telegram No. 27, January 29, 6 p. m., p. 669.

I said that I inferred from the phraseology of the note of January 30, 1935, that the Legation wished to confine itself to the statement of a plain fact, that is, that under American law no authority was vested in the Legation to instruct American commercial vessels to carry Chinese troops. I pointed out that the Legation had not expressed any opinion whether the American vessels would or would not be willing to carry troops on this occasion if asked to do so.

I inquired whether Dr. Liu had any information regarding the actual state of affairs, that is, whether troops were being carried to Szechwan by any foreign vessels.

Dr. Liu said that the British Legation had returned an oral reply to the Ministry of Foreign Affairs, substantially to the effect that the Legation thought that British ships would be willing to assist by carrying troops, provided that no military equipment was offered for cargo. He did not, himself, see how this would be of any great benefit to the military authorities, and he did not know whether foreign vessels were carrying troops or not. I said that rumors had come down from Hankow that some foreign ships, at least, were actually carrying troops of the National Government, but I had no authentic information on the point.

I inquired whether the Japanese Legation had returned any reply to the Foreign Office note of January 25, 1935, and Dr. Liu said it had not.

Dr. Liu said that he was grateful to me for giving him the background of this subject.

Incidentally, I might say that on February 11 I met the French Minister and casually inquired whether he had replied to the note of January 25. He said he had not and he added that there was actually very little French capital in the steamship companies which are known as French companies.

Yours sincerely, WILLYS R. PECK

893.1111 Stam, John C./64 : Telegram

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

WASHINGTON, February 14, 1935—6 p. m.

43. Your 69, February 9, 10 a. m. and 73, February 13, 11 a. m. Department approves proposed action by the Legation outlined in antepenultimate and penultimate paragraphs of latter telegram.

HULL

393.1111 Stam, John C./66 : Telegram

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

PEIPING, February 18, 1935—8 p. m.
[Received February 18—11 : 06 a. m.]

81. Reference Legation's 73, February 13, 11 a. m.; and Department's 43, February 14, 6 p. m. The Legation forwarded copies of foregoing telegrams to Nanking with a draft note to the Foreign Office for the consideration of the American Minister.

The following report has now been received from Peck at Nanking:

"February 18, 5 p. m. Legation's instruction of February 16.

1. Note enclosed with the instruction under acknowledgment was signed by the American Minister as of February 18 and has been delivered by me to the Director of the Department of European and American Affairs. The Minister for Foreign Affairs has not yet answered the Minister's request for appointment and this method was taken to obviate delay.

2. I called the attention of the Director to the failure to ascertain person responsible for issuing orders for the murder of the Stams and expressed the Legation's expectations that the effort would be continued. The Director expressed regret that possible source of information found in the executed soldiers was now closed.

3. I said the Legation would like to know why publicity had not been given to the detection and execution of four of the murderers and was told that it was because the Foreign Office wished to wait until the case was wound up. I asked whether the Foreign Office had the intention of releasing this information in the future and was told that the Ministry had no such intention unless the American Legation so desired. The Director inquired whether the Legation would like the Foreign Office to publish the news? I replied that I would consult the American Minister before replying.

4. The American Minister has directed me to take an early opportunity to inform Director Liu that if the Ministry of Foreign Affairs believes in the truth of the report that four of the Stam murderers have been detected and executed the American Legation sees no objection to the release of the information to the press."

GAUSS

393.1111 Stam, John C./67 : Telegram

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

PEIPING, February 19, 1935—7 p. m.
[Received February 19—11 : 35 a.m.]

82. Reference Legation's 81, February 18, 8 p. m., following telegram has been received from Peck at Nanking:

"February 19, 2 p. m. My February 18, 5 p. m.,[84] last paragraph.

[84] See *supra*.

I delivered message to Director Liu February 19, 11 a. m. and he said the Foreign Office stated [it] would release the information."

For the Minister:
GAUSS

893.00/12967 : Telegram

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

PEIPING, February 20, 1935—10 a. m.
[Received February 20—3:03 a. m.]

83. Reference Legation's 74, February 13, 1 p. m.,[85] following telegram has been received from the Consul General at Hankow:

"February 19, 6 p. m. Reliable information Reds from northern Szechwan have crossed border into Shensi with the probable intent to proceed westward to Kansu and Sinkiang. Letters to China Inland Mission from Fenghsien, Shensi, dated February 13th, state that Ningkiang, Mienhsien and Lioyang in southwest Shensi taken by Reds. No Americans stationed at places. Have warned Americans Shensi, Kansu, Chinghai and Sinkiang by letter and also sent telegrams warning to Fenghsien, Shensi and Tienshui, Minhsien and Tsingshui, Kansu."

For the Minister:
GAUSS

893.00/12969 : Telegram

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

PEIPING, February 23, 1935—4 p. m.
[Received February 23—8:50 a. m.]

87. Reference Legation's 83, February 20, 10 a. m., following telegram has been received from the Consul General at Hankow:

"February 23, noon. On February 22 China Inland Mission here submitted correspondence indicating apparent increased gravity of the situation in south Shensi, including telegram from Sian dated February 20th that Hanchung (Mincheng) was reported taken by Red forces. British missionaries attempting to evacuate Upper Han valley in Shensi. No Americans in that area so far as known. On February 16th I telegraphed Chairmen of Shensi and Kansu listing places where Americans reside and requesting protection and assistance in evacuation if necessary.

Repeated to Nanking."

For the Minister:
GAUSS

---

[85] Not printed.

893.00/12978 : Telegram

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

PEIPING, February 26, 1935—6 p. m.
[Received February 26—8 : 25 a. m.]

96. Legation's 87, February 23, 4 p. m. Following telegram has been received from the Consul General at Hankow:

"February 26, noon. My February 23, noon, paragraph 2. In reply to my telegram of 22nd, Shensi Government telegraphed 25th that it had telegraphed General Sun Wei Ju to circularize his officers and men to afford adequate protection to the missionaries of the various countries. Also that telegrams had been sent to the various magistrates instructing them to afford protection to American missionaries and other residents and that when necessary they be escorted to places of safety.

A reply from the Kansu Government of February 24th states Red brigands not threatening south Kansu.

A telegram from Shenminhsien, Kansu states they are preparing for evacuation when necessary and that there is no apparent danger yet."

For the Minister:
GAUSS

893.00/12997

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

No. 3402 PEIPING, March 1, 1935.
[Received March 23.]

Subject: Transportation of Chinese Troops on American Vessels on the Upper Yangtze

SIR: I have the honor to refer to the Legation's despatch No. 3373 of February 19, 1935,[86] in regard to the above-mentioned subject, and to enclose for the information of the Department a copy of despatch No. 53, dated February 25, 1935, from the Consul General at Hankow.[86]

Mr. Josselyn reports in this despatch that no Chinese troops have been transported to Szechwan Province by American vessels, but that one American vessel carried a certain amount of ammunition to that region.

Respectfully yours, For the Minister:
C. E. GAUSS
Counselor of Legation

---

[86] Not printed.

893.00/12982 : Telegram

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

CANTON, March 4, 1935—noon.
[Received March 6—6 : 15 a. m.]

Referring to my telegram of March 3, 6 p. m.,[89] telegram from Kweiyang reports Tsunyi now taken by Communists, combined Northern and Kweichow forces falling back to take defensive positions on south bank of Wu River, after disastrous defeat of five brigades between Tsunyi and Meitan. Government leaders in Kweichow broadcasting appeals for immediate reenforcements to enable them to hold present positions. Kweiyang defences being strengthened. I have again telegraphed American missionaries in that city and Kiensi to exercise every precaution. Sent to the Department, repeated to the Legation, Nanking and Hankow as well as my March 3, 6 p. m.

SPIKER

893.00/13019 : Telegram

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

SHANGHAI, April 16, 1935—4 p. m.
[Received April 16—8 : 45 a. m.]

I am informed by British Consul General that he understands that as a precautionary measure the foreign women and children are being evacuated from Chengtu owing to the danger from communistic attack. Repeat[ed to] the Hankow Consulate General. Repeated to the Department.

CUNNINGHAM

893.00/13022 : Telegram

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

PEIPING, April 17, 1935—6 p. m.
[Received April 17—9 : 32 a. m.]

157. Legation's 155, April 16, 10 a. m. [*p. m.*].[89] Following from Consul General at Hankow:

"April 17, noon. Letter Chengtu April 13 states 29th Szechuan Army ran away and Reds have obtained supplies, guns and ammunition hence their present push. At that time did not believe evacuation Chengtu would be necessary. Two messages from *Palos* dated April 16th which Legation doubtless received state *inter alia* Chengtu British [and] American missionaries starting preliminary evacuation

[89] Not printed.

women children toward Tzechow and Chungking. Ford plane going Chengtu 17th assist evacuation."

JOHNSON

893.00/13025 : Telegram

The Second Secretary of Legation in China (Atcheson) to the Secretary of State

NANKING, April 18, 1935—5 p. m.
[Received April 18—8 : 55 a. m.]

76. French Legation representative Nanking states he has today received telegram from French Consul Chengtu in substance as follows: American and British women and children are evacuating in Ford plane. Road and river between Chengtu and Chungking infested with bandit soldiers making communication difficult. Chengtu is in panic because of fear of Communist upheaval if troops evacuate Tachienlu; Communists in Chengtu believed to number 1200 have been arrested. General Li informed French Consul he was anxious concerning loyalty of his troops, and there is considerable dissension among provincial military. Chinese authorities have repeated in writing their oral warning to evacuate with the result that French Consul has notified French nationals question of leaving is at their discretion and two French sisters have departed. French Consul is removing his family but is himself remaining until danger increases.

ATCHESON

893.00/13029 : Telegram

The Consul General at Hankow (Josselyn) to the Secretary of State

HANKOW [undated].
[Received April 19, 1935—9 : 55 a. m.]

11. My April 17, noon, to the Legation.[90] Evacuation from Chengtu was advised by Defense Commissioner who asked that as a precaution all foreigners leave who could do so. Other local generals apparently considered evacuation not necessary. Evacuation women and children began 16th and continued 17th by boat, motor vehicles and airship. Letters from Chengtu dated April 16 and 17 state Americans not alarmed and are continuing work as usual; that reliable information military situation has improved within past 2 days; that Teng Hsi Hou[91] has moved large force from Mienyang against Reds at Kiangyu which is key city guarding route to Chengtu; that 20 battalions from Kwangyuan are moving on Kienko and that reenforcements have been sent to Anhsien and Mienchu. Chengtu

[90] See telegram No. 157, April 17, 6 p. m., from the Minister in China, p. 680.
[91] Commander, 28th Army, in Szechwan.

commander 28th Army informed Beech[92] April 16th "Chengtu is now decidedly safe as troops are increased and defense works nearly completed". Despatch of large number 21st Army from south Szechuan to Chengtu area stated in my telegram of April 15, 4 p. m.[93] confirmed. Repeated to Department and Nanking.

JOSSELYN

893.00/13045 : Telegram

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

PEIPING, April 25, 1935—2 p. m.
[Received April 25—5 : 30 a. m.]

167. Following has been received from the Vice Consul at Yunnanfu.[94]

"April 24, 4 p. m. Vanguard of 3000 Reds have passed Yunnan border near Hwangni. While the situation is not considered alarming, American citizens have been requested to prepare for evacuation on short notice. The British and French Consuls are taking similar measures. Railway company is keeping special train in readiness for possible emergency.

The Legation's instructions are requested should the situation become dangerous for the Consulate."

Legation has instructed Ringwalt as follows:

"April 25, noon. Your April 24, 4 p. m. In an emergency you are authorized to close the consulate, remove the archives, and proceed to Haiphong, pending further instructions. On account of the remoteness of your post from Peiping, the Legation is not in a position to instruct you promptly in matters affecting the safety of American nationals and yourself and it therefore gives you complete discretion and relies upon you to take such measures as you may consider necessary.

See Legation's telegraphic instructions of May 16, 1927, 5 p. m., and February 12, 1932, 6 p. m."

Legation's May 16, 5 p. m. 1927, to Yunnanfu was repeated to Department in the Legation's 560 of the same date[95] and was approved in the Department's telegram 224, May 18, 4 p. m., 1927.[96] Legation in that telegram to Yunnanfu instructed the Consul to proceed to Hong Kong in case of evacuation but it believes that Haiphong is safe and has accordingly instructed Ringwalt to proceed to that point in case of evacuation.

---

[92] Dr. Joseph Beech, president of West China Union University, Chengtu.
[93] Not printed.
[94] Arthur R. Ringwalt.
[95] *Foreign Relations*, 1927, vol. II, p. 298.
[96] *Ibid.*, p. 299.

Legation's February 12, 6 p. m., 1932 to Yunnanfu repeated the gist of the Department's 19 February 13 [3], 7 p. m. 1932, to Nanking for the Minister.[97]

Department's approval of Legation's telegram to Ringwalt and any further instructions on the matter will be appreciated.

For the Minister:
LOCKHART

893.00/13049 : Telegram

The Consul General at Hankow (Josselyn) to the Secretary of State

HANKOW, April 26, 1935—5 p. m.
[Received April 26—9:20 a. m.]

14. Reference Nanking telegram April 25, 2 p. m.,[97] reporting information regarding Szechuan received from French Legation representative. Reports received from Chengtu indicate situation that area much improved due to the arrival reenforcements. Some Americans have evacuated and they have sufficient motor transportation to evacuate remainder if necessary but they consider no danger surprise attack and probably will remain for the present. Repeated to the Legation and Nanking.

JOSSELYN

893.00/13074 : Telegram

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

PEIPING, May 7, 1935—10 a. m.
[Received May 7—2:37 a. m.]

186. Reference Legation's 184, May 5, 10 a. m.[97] Following telegram has been received from the Vice Consul at Yunnanfu:

"May 6, 3 p. m. Reds crossing the Yangtze north of Mou, foreigners returning Yunnanfu."

For the Minister:
LOCKHART

893.00/13076 : Telegram

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

PEIPING, May 9, 1935—noon.
[Received May 9—5:45 a. m.]

188. Legation's 187, May 8, noon.[97] Following telegram has been received from the Consul General at Hankow:

[97] Not printed.

"May 8, 3 p. m. My May 7, 3 p. m. A band of Reds numbering 3,000 reported operating southeast of Yochow, Hunan, near Pingkiang. Official at Yochow has advised American residents that town is lightly defended and he cannot guarantee their safety. Three American ladies and children reached Hankow last night. Other Americans remaining but prepared to evacuate."

Josselyn later reported, May 8, 5 p. m., that "remaining Americans left Yochow by train 2 p. m. today for Hankow."

For the Minister:
LOCKHART

893.00/13078 : Telegram

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

PEIPING, May 10, 1935—noon.
[Received May 10—5:45 a. m.]

190. Legation's 188, May 9, noon. Following telegram has been received from the Consul General at Hankow.

"May 7, 4 p. m. Americans from Yochow have all reached Hankow. They left Yochow chiefly on advice of their Chinese church members as it was feared railway might later be interrupted. Reds said to consist of a number of bands formerly operating in mountainous region along Hunan-Kiangsi border who have apparently united and are now concentrated at a point 140 li southeast of Yochow. Object of concentration not known but may attempt to take Yochow and later skirt Tungting Lake and unite with Ho Lung forces. No regular troops in Yochow; have only 1000 militia. Chang Hsueh Liang[3] yesterday went to Puchi on Canton-Hankow Railway near Hunan border and it is reported he has ordered one brigade of 105th Division to Yochow district."

For the Minister:
LOCKHART

393.1111 Bush, Henry J./1 : Telegram

The Consul at Swatow (Hinke) to the Secretary of State

SWATOW, May 10, 1935—noon.
[Received 5:55 p. m.]

The following to the Legation:

I have been informed of the disappearance of Father Henry James Bush, American Catholic priest of Maryknoll, New York, Mission while traveling out of Kaying, Kwangtung. Representations have been made to the local authorities and the mission will keep me informed. He is thought to be in the hands of bandits; Father Hilbert investigating on behalf of the mission.

HINKE

---

[3] Deputy Commander in Chief, Honan-Hupeh-Anhwei Bandit Suppression Forces.

893.00/13100 : Telegram

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

PEIPING, May 28, 1935—1 p. m.
[Received May 28—9 a. m.]

222. Department's 137, May 23, 2 p. m.[4] Ringwalt reports May 27, 11 a. m., that all American citizens had returned to Yunnanfu by May 12th.

For the Minister:
LOCKHART

393.1111 Bush, Henry J./23 : Telegram

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

NANKING, June 4, 1935—5 p. m.
[Received 8 : 30 p. m.]

138. 1. Following from Swatow:

"June 3, 4 p. m. For the Minister. The following is summary of a letter dated May 29th from Monsignor Ford,[5] Kaying received today:

Father Hilbert at Shihcheng Pingyun district Kwangtung received a communication on May 28th purported to be from bandits through an intermediary at Lanyuping Kiangsi where Bush was last seen demanding 50,000 silver dollars ransom, a man named Ling in drug store at Liuche Kiangsi to act as intermediary. Troops of General Chang Jui-Kuei[6] are stationed at Liuche which is 18 miles northwest of Lanyuping and 30 miles northwest of Shihcheng.

Mission consulted with General Huang Jen Huan commanding First Independent Division with headquarters at Kaying Kwangtung who insists that best plan is to attempt to ransom Bush before taking punitive measures since pursuit by troops might drive bandits into killing Bush. Ford proposes to open negotiations with bandits by demanding letter in Bush's handwriting to prove him alive and is prepared to pay ransom up to $5,000. Ford requests General Huang's plan of operations be conveyed to General Chang in Kiangsi, emphasizing need for military inactivity while ransom negotiations in progress but that this measure should not preclude systematic routine pressure to be exerted by General Chang in the Lanyuping-Liuche region.

Pending receipt of instructions regarding payment of ransom, I am requesting proper military authorities at Swatow as a temporary measure for the moment to assent to refrain from taking special anti-bandit suppression measures in the Lanyuping-Liuche district and at the same time continuing routine activities to avoid suspicion.

Ford promises complete information when available but adds that mission has no telegraph code and earnestly desires avoidance of all

---

[4] Not printed.
[5] Mgr. Francis X. Ford, Procurator of the Maryknoll Mission at Kaying, Kwangtung.
[6] Garrison commander, southern Kiangsi.

possible publicity even to American press. He states telegrams are public information and my letter to him on May 23rd opened.

Chinese names stated in Giles Romanization and Chinese telegraph codes.

Ford's letter with map is being sent air mail to Nanking, Peiping, Canton. Not repeated to the Department or Peiping.

2. The Minister has replied as follows:

"June 4, 4 p. m. Your June 3, 4 p. m. You should be careful to dissociate yourself from any matter relating to offer or payment of ransom leaving such questions entirely to the discretion and responsibility of the mission. You should hold Chinese authorities primarily responsible for safe delivery of Bush. In this connection, however, I perceive no objection to your communicating to Chinese authorities any request that mission or friends of Bush may have to make looking to his safe recovery by negotiation or otherwise."

For the Minister:
ATCHESON

893.00/13114 : Telegram

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

PEIPING, June 6, 1935—5 p. m.
[Received June 6—2:15 p. m.]

245. Legation's 226, May 29, 4 p. m.[7] Vice Consul at Yunnanfu reports as follows:

"June 5, 3 p. m. Reds captured Luting on June 1st and Tatsienlu on the 3rd. No information has been received concerning American citizens resident at the latter place."

For the Minister:
LOCKHART

893.00/13115 : Telegram

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

PEIPING, June 9, 1935—6 p. m.
[Received, June 9—1 p. m.]

254. Legation's 245, June 6, 5 p. m. Following telegram has been received from Vice Consul Yunnanfu:

"June 8, 10 a. m. Referring to my telegram of June 5, 3 p. m., American citizens residing Tatsienlu are safe at Chungking."

JOHNSON

---

[7] Not printed.

893.00/13117 : Telegram

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

PEIPING, June 12, 1935—2 p. m.
[Received June 12—9:05 a. m.]

264. Following from Hankow:

"June 12 [*11?*] 5 p. m. Band of Communist bandits reported operating on Hupeh-Honan border in the vicinity of Tungpeh and westward including Tenghsien. Members of Lutheran Brethren Mission have left Tungpeh and telegram received today from Woodstock, Lutheran United Mission at Tenghsien, sent in response to my inquiry, states she is leaving by first bus. Not known at present whether these departures due to the bandits".

JOHNSON

393.1111 Bush, Henry J./30 : Telegram

The Consul at Swatow (Hinke) to the Secretary of State

SWATOW, June 16, 1935—noon.
[Received June 16—5:45 a. m.]

The following telegram has been received from Drumright[8] at Kaying:

"June 16, 10 a. m. Father Bush rescued near Huangpi by military forces last night and is being escorted to Shihcheng today."

Legation informed.

HINKE

393.1111 Bush, Henry J./35 : Telegram

The Consul at Canton (Fletcher) to the Secretary of State

CANTON, June 21, 1935—5 p. m.
[Received June 21—3:15 p. m.]

Father Henry J. Bush officially delivered by Marshall Chen Chi Tang[9] to this Consulate General 3 p. m. today. Bush in good health notwithstanding 7 weeks' captivity and upon his request was placed on afternoon express train for Hong Kong accompanied by Father Charles P. Hilbert. Bush ascribes his release entirely to the strenuous efforts of the three first group army divisions mobilized by Marshal Chen Chi Tang for Bush's rescue. Repeated to the Department, the Legation, Swatow and to Nanking.

FLETCHER

---

[8] Everett F. Drumright, Vice Consul at Shanghai, temporarily detailed to Swatow.

[9] Director of peace preservation at Canton.

893.00/13157 : Telegram

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

PEIPING, July 27, 1935—1 p. m.
[Received July 27—6:50 a. m.]

381. Following telegram has been received from the Consul General at Hankow:

"July 26, 1 p. m. Reports are that main bodies Communists moving from Maokung and Maohsien areas in Szechuan northward toward Chinghai and/or Kansu. Telegraphic warning was sent yesterday to American mission stations in southern Kansu. Only Americans at stations in Chinghai belong to China Inland Mission. British Consulate General sent similar warning through China Inland Mission on information received from British Embassy. Despatch follows."

JOHNSON

893.00/13199 : Telegram

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

PEIPING, August 29, 1935—5 p. m.
[Received August 29—2:04 p. m.]

444. Following telegram has been received from the Consul at Hankow.[10]

"August 28, noon. Reds are reported to be threatening Changteh and region immediately west of Tungting Lake in northern Hunan. Sibuell telegraphed yesterday that he was preparing to evacuate Changteh; other telegrams from Changteh report that the situation is serious and business is at a standstill but do not mention evacuation. Warnings have been sent to Americans in the vicinity as well as those in northwestern Hunan, and missionaries about to return to stations there have been urged to delay their departures. British Consul at Changsha reports that Tzeli and Shimen a short distance northwest of Changteh were captured by the Reds on August 27, and the authorities at Changteh are making preparations against attack."

Consul Jarvis later telegraphed as follows:

"August 28, 1 p. m. My August 28, 1 a. m. Message from Changsha states that the British gunboat *Sandpiper* is proceeding to Changteh and should arrive there this evening."

JOHNSON

---

[10] Robert Y. Jarvis.

893.512/1428 : Telegram

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

PEIPING, October 1, 1935—5 p. m.
[Received October 1—9 : 18 a. m.]

19. The Consul at Swatow reports by mail under date of September 28 that six Japanese destroyers commanded by Rear Admiral Shimamura and one light cruiser have been stationed at Swatow since September 10 except for a brief visit of the cruiser to Hong Kong. He states that the most plausible explanation for the presence of these vessels is difficulties arising from the refusal of Japanese merchants to pay provincial tax on rice which they have imported and from the failure of the Chinese authorities to apprehend certain Chinese wholesalers who have absconded with proceeds obtained from the sale of this rice.

2. The Consul further reports that there are vague but persistent rumors which he is so far unable to confirm to the effect that the recent presence of these vessels is to support possible Japanese demands for a concession at Swatow.

LOCKHART

893.00/13227 : Telegram

The Consul General at Hankow (Josselyn) to the Secretary of State

HANKOW, October 7, 1935—4 p. m.
[Received October 8—1 a. m.]

51. My telegrams of September 30, noon and October 4, 11 a. m.[11] The Reds who turned eastward from Minhsien have penetrated deeper into eastern Kansu. Dividing into two bodies, one band moved southeastwards towards Linhsien and Liho and then turning north and proceeding by way of Tienshui and Kanku joined the other body, whose advance had been northeast past Changhsien and Kungchang, at Tungwei, 100 miles southeast of Lanchow on the Lanchow–Sian road. It is reported that they are threatening Tsingning, northeast of Tungwei and west of Pingliang, and it is possible that this may be an attempt to enter northern Shensi and join forces with the Reds there.

2. In southern Kansu the pressure on Minhsien and Taochow has been relieved, and persistent reports have it that the Reds' main body is retiring southward towards [apparent omission] and their old haunts west of Sungpan in northwestern Szechuan.

[11] Neither printed.

3. The road to Sian being unsafe the missionary party in Lanchow have reverted to their original plan of proceeding down the Yellow River to Ningsia and Paotow, which the Kansu Chairman has advised them is safe. They have hired rafts and intend to start from Lanchow for Paotow and Peiping on Wednesday October 9.. Their leader, Thornton [*Thomas*] Mosely of the Christian and Missionary Alliance, has asked me to telegraph to the Ningsia and other authorities along the route to Peiping a request for their protection. Ningsia not in this district but in view of emergency have today sent following telegram in Chinese to Chairman Ningsia Government.

"Party of 28 American and British missionaries leaving Lanchow Kansu by raft October 9 via Yellow River for Paotow and Peiping. Request instructions be issued Ningsia authorities along route afford them adequate protection."

British Consul General has taken similar action. Request Embassy support plea for protection along route by such means as may be expedient. Repeated to Department, Peiping, Nanking.

JOSSELYN

893.512/1429 : Telegram

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

PEIPING, October 10, 1935—1 p. m.
[Received October 10—7 a. m.]

44. Embassy's 19, October 1, 5 p. m. Canton reported October 7, 10 p. m. that the Swatow situation was felt in Chinese official circles to have increased in seriousness with Admiral Shimamura's demands that there be immediate release of Japanese goods held and that there shall be granted to Japanese merchants permission to import rice into Swatow and its hinterland without the payment of other than the regular customs taxes.

The following telegram has been received from Canton:

"October 9, noon. Japanese colonel representing Admiral Shimamura informed Li Hon Wen, Pacification Commissioner at Swatow, if the goods were not unconditionally released Admiral would send Japanese marines to Kityang to release them. Chinese now concentrating troops between Swatow and Kityang preparatory to blocking threatened move."

By mail to Tokyo.

JOHNSON

893.512/1430 : Telegram

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

PEIPING, October 14, 1935—noon.
[Received October 14—8 : 15 a. m.]

55. Embassy's 44, October 10, noon [*1 p. m.*] and Swatow's October 12, noon.[12] I have telegraphed commander in chief[13] as follows:

October 14, 11 a. m. The American Consul at Swatow telegraphs that the situation at Swatow is becoming critical, in view of the fact that the Chinese authorities are apparently not planning to comply with certain demands made by the Japanese Admiral at Swatow in connection with a dispute over taxation. The Chinese military authorities are reported to be preparing trenches to resist any Japanese landing forces. The Consul states that drastic action is not expected before Wednesday, October 16. The American Consul requests that an American naval vessel be sent to Swatow not later than October 16, to expedite communications and evacuation of Americans which, he states, will become necessary if the Japanese place landing forces ashore. I concur in his request and will appreciate it if you will order a naval vessel to Swatow, to arrive there on or before October 16 and to remain until conditions no longer require its presence.

The American Consul reports that a British naval vessel will arrive at Swatow on October 16.

JOHNSON

893.00/13231 : Telegram

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

WASHINGTON, October 14, 1935—7 p. m.

23. Your 53, October 12, 2 p. m.[14] The Department refers to the warning given by Hankow to American citizens at Lanchow and suggests that the Embassy, if in its opinion the situation warrants, may care to reenforce Hankow's warning by communicating through the American Consul General at Shanghai with the headquarters there of the American missions concerned.

HULL

---

[12] See telegram No. 62, October 15, 2 p. m., from the Ambassador in China, p. 692.

[13] Rear Admiral Frank Brooks Upham, Commander in Chief, U. S. Asiatic Fleet.

[14] Not printed.

893.512/1431 : Telegram

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

PEIPING, October 14, 1935—9 p. m.
[Received October 14—10:30 a. m.]

58. Embassy's 55, October 14 noon. U. S. S. *Asheville* at Canton has been ordered to proceed immediately to Swatow and should arrive at Swatow tomorrow morning.

JOHNSON

893.512/1433 : Telegram

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

PEIPING, October 15, 1935—2 p. m.
[Received October 15—9:30 a. m.]

62. Department's 22, October 14, 6 p. m.[15] Swatow's October 12, 12 p. m. reads as follows:

"October 12, 12 p. m. I have the honor to report that I was informed tonight that a British warship is visiting Swatow from October 16th to 20th. Although this visit has not been planned on account of the Sino-Japanese it is most opportune. On October 11th I interviewed Admiral Shimamura who expected that satisfactory settlement would be reached early this next week. Since there is a possibility his confidence is not justified I respectfully request reconsideration that an American warship be sent to Swatow not later than October 16th to extend communications and evacuation of Americans which will become necessary if the Japanese place landing forces ashore. No ultimatum except in regard to trade has been sent by the Japanese but the Admiral stated that if the Chinese fail to comply with the demands already made further demands will be made next week and a time limit set. The Japanese Consul confirmed the Admiral's statement to me in an interview with Hallett Abend of the *New York Times* yesterday. I do not expect the Japanese to take drastic action before Wednesday but believe they will do nothing more unless Cantonese attitude as reported by the Consul General categorically in his despatch October 8th is radically changed before the expiration of next week to comply fully with the Japanese Government's demands. The Chinese military authorities are reported to be preparing trenches from Swatow to Fukien border, and may be expected to resist Japanese landing forces in case amicable settlement is not arrived at, at Canton in the near future. I am reliably informed Chinese authorities at Swatow do not expect to receive instructions to comply with the Japanese requirements.

Nanking and Department [not] informed."

JOHNSON

---

[15] Not printed; it stated that the Department had not received Swatow's October 12, noon (893.512/1430).

893.512/1434 : Telegram

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

PEIPING, October 17, 1935—3 p. m.
[Received October 17—11 : 40 a. m.]

69. Embassy's 62, October 15, 2 p. m. Consul Fletcher at Canton telegraphed October 16, 8 p. m. as follows:

"Special delegate for Foreign Affairs confidentially states that rice controversy settled and Japanese warships to withdraw from Swatow today."

Commanding Officer U. S. S. *Asheville* [at] Swatow reported October 16 that Admiral Shimamura had informed him on that day that he considered that the tax controversy had been settled to his entire satisfaction and that all Japanese ships would leave for Shanghai on October 17. Commanding officer stated that conditions no longer required the presence of the *Asheville* at Swatow and that the American Consul concurred and considered the incident closed.

Repeated to Shanghai for the Ambassador and to Nanking.

LOCKHART

893.00/13238 : Telegram

The Consul General at Hankow (Josselyn) to the Secretary of State

HANKOW, October 26, 1935—11 a. m.
[Received October 26—9 : 05 a. m.]

54. My number 51, October 7, 4 p. m., paragraph 3. Missionary party arrived safely Paotow Suiyuan Province yesterday according to a telegram received by mission headquarters here today. Repeated to the Department, Peiping, Nanking.

JOSSELYN

893.00/13242 : Telegram

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

PEIPING, October 28, 1935—4 p. m.
[Received October 28—9 : 50 a. m.]

99. Embassy's 93, October 26, 5 p. m.[16] Party of 23 foreign missionaries from Lanchow arrived safely in Peiping this morning. The following 11 Americans were included in the party: Miss Ruth Lindstrom, Miss Anna Haupberg, Mr. and Mrs. Calvin Snyder, Mr. and Mrs. Charles Notson, and Mr. and Mrs. Francis Derk and their three children. Repeated to Nanking, Shanghai and Hankow.

LOCKHART

[16] Not printed.

893.00/13244 : Telegram

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

PEIPING, October 29, 1935—noon.
[Received October 29—9 : 15 a. m.]

101. Following telegram has been received from the Ambassador at Shanghai.

"October 28, 4 p. m. Reference Hankow's October 26, noon, and October 27, 11 a. m. regarding condition in Tatsienlu. I have today addressed note to Foreign Office requesting protection of Americans in area."

LOCKHART

893.00/13245 : Telegram

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

PEIPING, October 30, 1935—7 p. m.
[Received October 30—2 : 10 p. m.]

107. Reference Embassy's 101, October 29, noon. Following telegram has been received from Yunnanfu :

"October 29, 3 p. m. Referring to Hankow's October 26, noon. Provincial Government believes that the situation is not serious. Tatsienlu garrisoned by more than 10,000 Hunan and Szechwan troops. Red objective is believed to be Sichang and Anning valley.
Repeated to Nanking, Hankow."

LOCKHART

893.00/13247 : Telegram

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

PEIPING, November 1, 1935—9 a. m.
[Received 9 : 50 a. m.]

110. Embassy's 99, October 28, 4 p. m. Following telegram has been sent to the Consul General at Hankow by the Embassy :

"November 1, 9 a. m. Reverend C. F. Snyder, Christian and Missionary Alliance, who arrived in Peiping on October 28 with the missionary party from Lanchow, reports that the mission's station at Minhsien, Kansu, has been occupied since the departure of the missionaries by Central Government troops and that the mission's station at Taochow, Kansu, has been occupied by Provincial troops. He further reports that the mission's church at Lintao, Kansu, has probably also been occupied by troops.

Please telegraph Chairman of the Kansu Provincial Government and request that the troops in occupation of these American mission stations be ordered to remove from the premises which will be cared for by the mission's Chinese staff.

Counselor Peck at Nanking has been requested to make appropriate representations to the Foreign Office."

LOCKHART

893.00/13275 : Telegram

The Consul General at Hankow (Josselyn) to the Secretary of State

HANKOW, November 13, 1935—4 p. m.
[Received November 14—3 p. m.]

57. The Communists under Hsu Hsiang Chien who remained in northwestern Szechuan when Mao Tze-tung[17] moved into Kansu in September en route to northern Shensi have struck southwards from west of Sungpan, driven back the Government forces in the Mowkong area, and reached Lushan and Tienchuan north and west of Yachow and are threatening Tayi and Kiunglai, west of Chengtu. Liu Hsiang, the Szechuan Chairman, has withdrawn his headquarters from Kiunglai to Sintsing which is closer to Chengtu. Yan Sen's 20th Army is reported to have borne the brunt of the fighting north of Yachow and lost heavily but to have checked the Communist advance, at least temporarily. According to unconfirmed reports in Chengtu November 9th troops of Liu Wen Hui's 24th Army in Yachow have refused to fight and the situation there is serious. Reinforcements have been despatched to Yachow from Chengtu in large numbers and there are heavy troop movements toward Chengtu from the northeast. Strict censorship has been established.

2. The following Americans were stationed in the danger area: at Yachow Mr. Frederick Newton Smith and the Misses Laura Emma Brodbeck, Carrie A. Shurtleff and Frances Therolf, all of the American Baptist Mission; at Kiunglai, Miss [*Mrs.*] R. Jefferson, wife of a China Inland missionary. Air mail letter from Chengtu November 11th states missionaries at Kiunglai have evacuated and those at Yachow were leaving by raft for Kiating November 11th. I have telegraphed Kiating for information regarding them.

Repeated to Department, Peiping and Nanking.

JOSSELYN

---

[17] Head of the Chinese Soviet regime.

893.00/13277 : Telegram

The Consul General at Hankow (Josselyn) to the Secretary of State

HANKOW, November 14, 1935—4 p. m.
[Received November 14—3 : 20 p. m.]

58. Peiping's November 13, 2 p. m.,[18] and my November 13, 4 p. m. Yachow missionaries have arrived in Kiating. I telegraphed yesterday to Tatsienlu but have not yet received a reply; the Hankow telegraph office reported the wire open. Repeated to Peiping, Nanking.

JOSSELYN

893.00/13278 : Telegram

The Consul General at Hankow (Josselyn) to the Secretary of State

HANKOW, November 14, 1935—6 p. m.
[Received—8 : 33 p. m.]

59. My November 14, 4 p. m. Adventist Mission Tatsienlu telegraphs November 14 that situation still serious and east and south roads blocked. Repeated to Peiping, Nanking.

JOSSELYN

893.512/1445

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

No. 97 PEIPING, November 20, 1935.
[Received December 19.]

SIR: I have the honor to refer to the Embassy's despatch No. 63 of October 31, 1935,[19] regarding the conflict between the Chinese and Japanese authorities at Swatow, and to enclose for the information of the Department a copy of despatch No. 90 of November 6, 1935, from the Consulate at Swatow[20] reporting on the present status of Sino-Japanese relations at that place. It will be observed from that despatch that potentialities for future trouble there apparently still exist.

Respectfully yours, For the Ambassador:
F. P. LOCKHART
Counselor of Embassy

---

[18] Not found in Department files.
[19] Not printed; see telegram No. 69, October 17, 3 p. m., from the Counselor of Embassy in China, p. 693.
[20] Not printed.

893.00/13292 : Telegram

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

NANKING, November 27, 1935—9 a. m.
[Received 10:30 a. m.]

112. Hankow's November 25, 5 p. m.

1. Under date October 26 Embassy informed Foreign Office in formal note [21] that it understood lives of Americans in Sikang were endangered because of grave conditions there, furnished names of Americans believed to be in Kangting (Tachienlu) and stated that Harden-Brooke, Thorne and Knoblaugh were understood to have started from Chengtu to Kangting. Embassy requested that instructions be issued to appropriate authorities to afford adequate protection to American citizens in the troubled area.

2. Subsequent information reported by Hankow was communicated to Foreign Office by informal letter to Department of European and American Affairs November 15, and that Department replied under date November 18 that Foreign Office had telegraphed Szechuan and Sikang Provincial Governments who had replied that the local authorities had been instructed by telegraph to afford protection and that, while Harden-Brooke had reached Tachienlu 2 weeks before, Thorne and Knoblaugh had not arrived at Yaan. The letter added that the Ministry was again telegraphing the Szechuan Provincial Government to take steps to protect the Americans at the various places.

3. Information in Hankow's November 25, 5 p. m. is being communicated to Foreign Office by a further letter of today's date.

4. Embassy understands that a Chinese American named Jack Young is also in vicinity of Tachienlu conducting some kind of expedition and has so informed Hankow.

5. Repeated to Peiping.

PECK

893.00/13296 : Telegram

The Consul General at Hankow (Josselyn) to the Secretary of State

HANKOW, November 30, 1935—4 p. m.
[Received 7 p. m.]

62. Communist bandits under Ho Lung and Hsiao Ke within the past few days suddenly moved south, crossed the Li and Yuan rivers breaking through Hunan troops surrounding them with but little resistance. They have cut the motor road and interrupted telegraphic and postal communication with Yuanling. At first this was believed

[21] See telegram No. 101, October 29, noon, from the Counselor of Embassy in China, p. 694.

to be merely another raid for food supplies but now fairly well established that it is a definite move of their entire force from northern Hunan toward Kweichow and Kwangsi. Chinese military at Hankow have information that after passing Yuan River forces divided into two groups, one group moving west toward Chenki and Fenghwang. The other group moved farther south, passed through Anhwa and Sinhwa and on the 29th are reported to have reached Chihkiang where American missionaries are stationed. Supu and Chenki were also reported attacked on 28th and 29th.

2. Catholic mission in Hankow received yesterday a telegram from Chihkiang saying: "Reds are approaching this city. Sisters, priests all here. Evacuation impossible." There are nine Americans in Chihkiang, two Roman Catholics and one Protestant. There are four American Catholic priests stationed at Chenki, two at Supu, and one at Lungtan; their Hankow office believes they will have withdrawn to safety before the Communists reached their stations. Miss Justine E. Granner and Miss Rose L. Fecker of Evangelical Church Mission were at Chenki on November 11, but their mission in Changsha has not heard from them since and their present whereabouts are unknown. Americans at other points are believed to be safe. I have telegraphed to the Hunan Provisional Governor an urgent request that protection be afforded Americans at threatened points in western Hunan. All Americans in that area have been warned repeatedly of the danger of their territory being invaded by this group of Communists. Repeated to the Department, Peiping, Nanking and Canton.

JOSSELYN

893.00/13301 : Telegram

The Consul General at Hankow (Josselyn) to the Secretary of State

HANKOW, December 2, 1935—6 p. m.
[Received 11 p. m.]

63. My November 30, 4 p. m. Ho Lung and Hsiao reported to be moving rapidly westward from the Yiyang–Sinhwa area towards the Kweichow border which they may already have crossed. American Catholic Mission in Chihkiang telegraphed yesterday that Hsiao was moving by way of Hungkiang, Ho Lung by way of Chihkiang and a third body by way of Mayang. Most of the troops in the province are in the northwest. Some nervousness in Changsha where there are practically no troops and numerous missionaries have moved there from Yiyang, Ningsiang and Poaking. Reenforcements reported on their way from Kiangsi and the Hunan troops are following the Communists. The Standard Vacuum Oil Company are holding their steamer *Meishan* at Changsha pending developments.

2. Hunan Provincial Government telegraphed me November 30 that it ordered the military units at the front in conjunction with the magistrates to protect missionaries in Chihkiang and other districts. Repeated to Department, Peiping, Nanking, Canton.

JOSSELYN

893.00/13304 : Telegram

The Consul General at Hankow (Josselyn) to the Secretary of State

HANKOW, December 4, 1935—6 p. m.
[Received December 4—11 : 10 a. m.]

65. My December 3, 4 p. m.[22] Red movements at present uncertain. Chinese military Hankow state main force Reds are in central Hunan between Hsienhua and Supu and so far as they know are still moving westward. On the other hand telegram from Chihkiang received by Catholic Mission today states Reds retreating from that point. News received today from Changsha is more reassuring and former nervousness reported not now apparent.

2. All missionaries in western Hunan (referred to in my November 30, 4 p. m., paragraph 2) have now been heard from.

Repeated to Department, Peiping and Nanking.

JOSSELYN

893.00/13312 : Telegram

The Consul General at Hankow (Josselyn) to the Secretary of State

HANKOW, December 9, 1935—5 p. m.
[Received December 9—4 : 27 p. m.]

68. My December 4, 6 p. m. Uncertainty Red destination continues. Main body believed to be in central Hunan. Letter dated Changsha, December 7th, states main body Reds reported to have turned back from Kweichow border for reasons unknown; also that Kwangsi troops have entered Hunan from south and Hupeh troops from north. These troop movements believed are [of] political significance. Hankow military informs me Hupeh troops are proceeding to front via Changsha. American naval authorities holding *Monocacy* [at] Hankow in readiness for quick departure for Changsha if necessary, although at present Changsha reported calm.

Repeated to the Department, Peiping, Nanking.

JOSSELYN

---

[22] Not printed.

893.00/13330 : Telegram

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

PEIPING, December 31, 1935—1 p. m.
[Received December 31—6 : 30 a. m.]

250. Following telegram has been received from the Consul General at Hankow:

"December 30, 5 p. m. My despatch No. 209, December 14th. One or two groups of Reds which were penetrating southwest Hunan toward Kweichow have apparently encountered resistance on the border and are moving north. Catholic mission Chihkiang telegraphed December 28th that Reds were fighting in the Hungkiang and Kienyang area, and that the situation at Chihkiang was very tense. I telegraphed December 29th to the Provincial Government at Changsha asking for protection of missionaries at Chihkiang of whom there are nine Americans. Telegram from Yuanling December 29th received today states heavy troop movements from there toward Chihkiang and the authorities assure safety Chihkiang."

JOHNSON

893.00/13333 : Telegram

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

PEIPING, January 7, 1936—5 p. m.
[Received January 7—10 : 35 a. m.]

5. Consul General Hankow reported on December 30 that some anxiety is felt concerning the safety of American Catholic missionaries at Chihkiang, Hunan Province, and that he had made representations to the Provincial Government. The following telegram has now been received from Josselyn:

"January 6, 3 p. m. Telegram received from Chihkiang by Catholic mission Hankow, January 3rd states. 'All safe.' Changsha press reports January 5th that Reds who threatened Chihkiang had moved into Kweichow by way of Hwanghsien and were near Tungjen, Kweichow, on January 3rd and that Reds in Suining district are moving past Tsinghsien towards Kweichow border."

JOHNSON

RETENTION OF UNITED STATES ARMY FORCES IN CHINA[23]

124.9318/187 : Telegram

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

WASHINGTON, June 18, 1935—7 p. m.

170. Your 279, June 15, 2 p. m.[24] The Department in reply to in-

[23] Continued from *Foreign Relations*, 1931, vol. III, pp. 1013–1016.
[24] Not printed.

quiries from the press has stated that there has been no consideration nor discussion here in regard to the removal of American troops from Peiping and Tientsin.

There has been no press inquiry in regard to the removal of the Legation.[25]

HULL

893.0146/476a : Telegram

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

WASHINGTON, September 6, 1935—6 p. m.

273. There was published in the August 30th issue of the *Washington Daily News* and possibly in other American papers, an undated United Press report from Tientsin stating *inter alia* that the "withdrawal of America's 'foreign legion' which has been garrisoned here since the Boxer Rebellion will result in great loss of 'face' to the American colonies in north China, in the opinion of foreign residents here" and that "now the Chinese Government has a right to believe that the United States refused to withdraw American troops to gain China's friendship but is withdrawing them at the mere possibility that Japanese military commanders might not be pleased with the continued presence of American soldiers here, using contemplated removal of the American Embassy from Peiping to Nanking as an excuse for the real motive."

The Department states for your information and use in your discretion that there is no warrant in fact for any statement affirming or implying that the United States is withdrawing American troops from or at Tientsin.

HULL

893.0146/479

The Acting Secretary of War (Woodring) to the Secretary of State

WASHINGTON, November 19, 1935.

DEAR MR. SECRETARY: I have the honor to recall to your attention the letter addressed by the Secretary of War on April 9, 1931,[26] to your predecessor, recommending the withdrawal of the American garrison from Tientsin, and earnestly to renew that recommendation in view of current developments in North China.

The purpose for which this small force was installed at Tientsin has long since been relinquished. It can serve no useful purpose. On the other hand, particularly if a pseudoautonomous government

[25] See section entitled, "Raising of the American Legation in China to the Status of Embassy and Abolition of the Consulate General at Nanking," pp. 508 ff.

[26] Not printed; for reply to this letter, see *Foreign Relations*, 1931, vol. III, p. 1015.

be set up in North China under Japanese protection, its continued presence will be a potential source of the gravest complications. The position of this garrison will then become exceedingly anomalous. Its employment in any way as a military force would be likely to involve us in war with Japan.

In view of the foregoing, I earnestly recommend the withdrawal of this garrison immediately upon the setting up of an autonomous State in North China.

Sincerely yours, HARRY H. WOODRING

893.0146/479

The Secretary of State to the Acting Secretary of War (Woodring)

WASHINGTON, November 20, 1935.

MY DEAR MR. WOODRING: I acknowledge the receipt of your letter of November 19, 1935, referring to a letter addressed by the Secretary of War on April 9, 1931, to the then Secretary of State, recommending the withdrawal of the American garrison from Tientsin and stating that, in view of current developments in North China, you renew that recommendation.

As you know, this question has been in times past the subject of thoughtful and mutual consideration by our respective Departments. The development of the contingency mentioned by you would, as you intimate, present a new factor calling for renewed consideration of the whole matter and I shall expect to confer with your Department at an early date in regard thereto.

In the meanwhile I assume of course that no action will be taken by the War Department toward implementing your recommendation and I would request that no publicity be given to the matter.

Sincerely yours, CORDELL HULL

DENIAL BY THE UNITED STATES OF RESPONSIBILITY FOR ALLEGED KILLING OF A CHINESE BY AMERICAN NAVAL ENLISTED MEN IN CHINA

393.9313/5

The Consul General at Hankow (Adams) to the Minister in China (Johnson)[27]

L. No. 344 HANKOW, August 16, 1933.

Subject: Alleged Assault and Murder of a Chinese by American Naval Enlisted Men.

SIR: I have the honor to refer to my despatches to the Legation L.

---

[27] Copy transmitted to the Department by the Consul General at Hankow in his despatch No. 347, August 16; received September 15.

No. 327, July 18, 1933, and L. No. 328, July 20, 1933, on the above subject and to supplement them by giving below subsequent developments in the case.

Following the failure of the Chinese who were rescued from the water to identify their assailants and following the exhaustive efforts of the naval authorities to ascertain the true facts of the case, it became apparent that no definite conclusions could be reached as to the identity of the guilty persons. The Chinese press was keeping the case before the public, and it was also apparent that the Chinese Lawyers' Association, into whose hands the case had found its way, was in a position to cause considerable further publicity unfavorable to Americans.

With the foregoing in mind, I suggested to the Captain of the U. S. S. *Guam* that he raise a subscription of about silver $200 on board the *Guam* and that he place this sum in my hands with full discretion to use it, or as much thereof as might be necessary, in an endeavor to reach a settlement. In making this suggestion my thought was that the contribution might possibly tend to prevent future disturbances so far as the crew of the *Guam* was concerned as well as place the American authorities in a position to attempt to stop unfavorable publicity.

The commanding officer of the *Guam* very kindly complied with my suggestion, and I called on Dr. Wu [28] on August 4, and discussed the case thoroughly with him. A memorandum of our conversation on that occasion is attached hereto as enclosure No. 1.[29]

In accordance with my promise to Dr. Wu I communicated with the Commanding Officer of the *Guam* and asked him whether or not the contribution could be increased. I informed him that the matter had reached the bargaining stage and that if, as I anticipated, he were to inform me that the amount could not be increased, I would be glad to convey that information to the Mayor. He replied that the contribution could not be increased, and I so informed Dr. Wu. Following this Dr. Wu told me that he would make a determined effort to settle the question upon the basis of my offer provided I could express regret for the occurrence and give him some assurance that measures had been taken to prevent a like incident in future. He asked me if I would embody these points in a formal despatch. I replied that I would do the best I could upon the basis of the facts in the case. Dr. Wu then wrote a despatch to me, dated August 14. A translation of that despatch is attached hereto as enclosure No. 2.[29] I have today given Dr. Wu my reply and a copy of it is attached hereto as enclosure No. 3.[29]

[28] Dr. Wu Kuo-cheng, mayor of Hankow.
[29] Not printed.

The case holds some elements of danger to the good will prevailing here toward Americans and I hope that the Legation will not feel that in my handling of the case I have gone further to meet the Chinese desires than was justified by the circumstances of the case. I have also had in mind the circumstance that Dr. Wu is under some pressure from the Chinese Lawyers' Association. I gather that his desire for a formal despatch from me is partly at least because he wishes to have something definite in writing with respect to the terms offered to exhibit to the Lawyers' Association.[31]

Respectfully yours, WALTER A. ADAMS

393.9313/8

The Chinese Acting Minister for Foreign Affairs (Wang) to the American Minister in China (Johnson)[32]

[Translation]

[NANKING, September 13, 1933.]

SIR: I have the honor to inform you that I have received a despatch, with enclosures, from the Hupeh Provincial Government, reading:

"We have received reports on different occasions from the Hankow Municipal Government, as follows:

'At 8:30 p. m. on August 11th at the jetty of Melchers & Company there were two sailors from the American gunboat *Guam* returning from ashore to their boat. One of them arrived at the gangway plank and suddenly knocked down into the water on different occasions four Chinese citizens, namely K'uang Tsao-hua, Liu Yüan-sung, T'ang Hsien-fa and Chao Ch'ing-yün, who were walking on the plank. At that time three persons were rescued. The whereabouts of Chao Ch'ing-yün was unknown.

'At 8:00 a. m. on the 13th a drowned man was found at the said jetty. The body was definitely identified as Chao Ch'ing-yün by his family. The Hankow Local Court and the Municipal Hospital sent representatives to hold an examination, and found that it was true that the man had died by drowning.

'Aside from filing with the American Consul three terms, namely, punishment of the guilty parties, indemnification for losses, and assurance that no like incident will occur in the future, we have the honor to enclose herewith a photograph of the remains of Chao Ch'ing-yün for your consideration.'

"The Municipal Government was at once instructed to continue strong representations on the basis of the three terms originally filed, and to submit reports. Another report has now been received, stating:

'Since the facts of this case are irrefutable, and the American naval authorities have persistently shirked their responsibility, it is requested that the Ministry of Foreign Affairs be asked to make strong representations.'

"Since the Municipal Government has made numerous representations without avail, it is impossible to effect a local settlement. We

[31] The Minister in China, in his instruction dated September 1, commended the Consul General at Hankow "for having apparently handled a delicate matter very well" (393.9313/6).

[32] Copy transmitted to the Department by the Minister in China in his despatch No. 2460, January 9, 1934; received February 10, 1934.

have the honor to enclose herewith copies of the complete file and the photograph, and to request that you immediately make strong representations."

This Ministry has carefully perused the complete file of this case. The fact that the Chinese citizen, Chao Ch'ing-yün, was pushed by an American sailor into the water and was drowned has been proved by the testimony given by a policeman on duty at the jetty who witnessed the incident, the remaining three Chinese citizens who were pushed into the water at the same time, and two boatmen who rescued them from the water. Since the drowned body in question has been definitely identified by the family and neighbors, and since the Law Court has held an inquest proving that the man died by drowning, the evidence is irrefutable and the facts are clear. However, the American naval authorities, although they conducted investigations, at first made excuses that witnesses were not all present, and later, merely on the basis of an examination made by a naval physician, considered that the body had been dead for five days and expressed the opinion that the body was not one of those pushed into the water by the American sailor. They have made excuses in order to delay the matter and have persistently shirked their responsibility. It is evident that they have not acted with the slightest sincerity, but they do not know that at the time the Police Station recorded the testimony of the various Chinese witnesses and that copies of the testimony were forwarded to the American Consulate where they could have been examined. Also, several days had elapsed and some of the witnesses had gone to other places; therefore, it was actually impossible to call all the witnesses together. Furthermore, there was no necessity for this.

With regard to the decomposition of the remains, it was due to the extremely hot weather. The physicians when rendering their judgments relied upon their personal opinions. Some of them said that it was two days, while others stated that it was three or five days. In short, neither point is important. It is only necessary for the family of the deceased to identify the body. Moreover, the family of the deceased made a report regarding his disappearance to the Police Station after the occurrence of the incident. Thus without doubt he was the person who was pushed into the water.

Had the American naval authorities really wished to render sincere cooperation, they should have strictly questioned and prosecuted at law one by one the several sailors who went ashore that evening. It would not have been difficult for them to have ascertained the real culprit and punished him according to law. However, beforehand the American naval authorities were unable to restrain their subordinates from being indifferent to Chinese life. After the occurrence of

the incident, the authorities again persistently sided with them, thereby causing the matter to remain unsettled for many days, and without result.

This Ministry cannot but file a protest with you, and request that you ask the American Government strictly to instruct the naval authorities in China to take effective action and bring about a settlement as promptly as possible in respect of the following three terms originally filed:

(1) Punishment of guilty parties.
(2) Indemnification of losses.
(3) Assurances that no like incident will occur in the future.

I deeply hope, Mr. Minister, that you will treat this matter as of great importance and will promptly render assistance in an equitable manner, in order that a satisfactory settlement may be reached.

I have the honor to enclose herewith copies of the related correspondence [33] and a photograph for your information, and to express the hope that you will give me a reply.

WANG CHAO-MING

393.9313/15

The American Chargé in China (Gauss) to the Chinese Acting Minister for Foreign Affairs (Wang) [34]

No. 824 PEIPING, October 26, 1934.

EXCELLENCY: I have the honor to refer to Your Excellency's note of September 27, 1934,[33] concerning the death at Hankow in July, 1933, of one Chao Ch'ing-yün and the allegations of the Hankow Municipal Government that members of the crew of the U. S. S. *Guam* were implicated in the case.

I have now received an instruction from the Secretary of State,[33] with which there was enclosed a copy of a statement of the findings of the Navy Department in regard to the case. The following résumé of the statement of the Navy Department is given for Your Excellency's information:

Briefly stated, the facts as submitted by the Chinese authorities are that on the evening of July 11, 1933, at about 8:00 p. m., four Chinese were pushed from the Nord Deutsche Lloyd pontoon into the Yangtze River at Hankow by two enlisted men from the U. S. S. *Guam*. Three of the Chinese were rescued and the body of the fourth was discovered in the water on the morning of July 13 near the place where this affair had occurred.

---

[33] Not printed.

[34] Copy transmitted to the Department by the Chargé in China in his despatch No. 3079, October 26, 1934; received December 1, 1934.

On July 14, 1933, a Naval Board of Investigation was convened on the U. S. S. *Guam* to inquire into the circumstances of the above affair and on July 31, 1933, a Court of Inquiry was convened for the same purpose. As thorough an investigation was made as was possible and from the evidence presented the Court of Inquiry made the following findings of facts and expressed the following opinions:

Findings of Facts

1. That from the best evidence available, namely the recorded testimony of Chinese witnesses before the Board of Investigation on 14 July, 1933, three Chinese named Kuang Tsao-hua, Liu Yuan Sung and Tang Hsien Fah were pushed into the Yangtze River, from the lower side of the N. D. L., causeway between 8:00 and 8:30 p. m., 11 July, 1933, by two foreigners, alleged to have been sailors; and that the three aforesaid Chinese were rescued from the river.

2. That a corpse was produced on 13 July, 1933.

3. That this corpse was examined by Lieutenant (junior grade) Charles M. Parker (Medical Corps), U. S. Navy, medical officer, U. S. S. *Guam*, who reported that the corpse was at least five days dead.

4. That this corpse was also examined by Doctor Horst Schneider, a German physician of Hankow, China, who stated in writing that the corpse might have been in the water three or four days.

Opinion

1. That the corpse produced on 13 July, 1933, could not have been drowned on the evening of 11 July, 1933.

2. That not only were no American sailors identified but that the foreign sailors were not even identified as Americans.

3. That there is insufficient evidence to substantiate a charge before a court-martial against any enlisted man of the U. S. S. *Guam*.

The Navy Department concurs in the above findings and opinions for the reasons hereafter discussed. No American sailors were identified by any witnesses and the evidence does not reasonably establish that the persons responsible for the alleged assault were from the U. S. S. *Guam*. In this connection five Chinese, who are alleged to have witnessed the affair, testified before the Naval Board of Investigation. Kuang Tsao-hua was the only one of these witnesses to testify that the men who pushed the Chinese into the water were from the *Guam*.

His testimony concerning this feature was as follows:

"Q. Relate to me any unusual occurrence that you saw while going ashore in this runway?

"A. As I was going ashore I saw nothing unusual. The only unusual thing that occurred was to myself. A sailor from the gunboat pushed me into the water.

"Q. How do you know it was a sailor from the gunboat?

"A. The only reason was that there was only one gunboat tied up at Hankow."

An examination of the Log of the U. S. S. *Guam* for July 11, 1933, shows that the following foreign government vessels were at Hankow on that date:

H. M. S. *Bee*, *Cumberland*, *Falcon*, *Aphis*, *Gannet;*
R. F. S. *Algov*, *Francis Gamier*, H. I. J. M. S. *Hodga;*
R. C. S. *Yung Sui*, *Teh Sheng*, *Weh Sheng*.

Tan Hsien Fah, one of the men who was pushed off the dock, testified before the Board and stated as follows with reference to the men who are alleged to have committed the assaults:

"Q. Did they have anything on their heads?

"A. They had hats.

"Q. What kind of hats?

"A. White hats.

"Q. Were they large hats or small hats?

"A. They were like neither of those hats. (The witness indicated with his finger a U. S. Navy Officer's white hat and enlisted man's white hat)."

The above evidence not only raises considerable doubt as to the nationality of the sailors who are alleged to have pushed the Chinese from the dock, but strongly indicates that they were not American sailors.

In addition to the foregoing, Lieutenant, Junior Grade, Charles M. Parker, Medical Corps, U. S. Navy, testified before the Board of Investigation and Court of Inquiry that he had examined the body that was produced on July 13, 1933, and was of the opinion that the deceased had been in the water for about five days. This witness also identified a report made by Dr. Horst Schneider, a civilian physician of Hankow, in which Dr. Schneider stated: "My opinion is that he may have been in the water 3–4 days because his body was in a stage of decomposition." This medical testimony quite definitely indicates that Chao Ch'ing-yün was not one of the Chinese pushed into the water on the night of July 11, as less than two days had elapsed since this alleged occurrence and the finding of the body.

With reference to the evidence and arguments submitted by the Chinese authorities, in the Note dated September 13, 1933, of the Acting Minister for Foreign Affairs of the Republic of China to the United States Minister to China, it is stated that—

"The fact that the Chinese citizen Chao Ch'ing-yün was pushed by an American sailor into the water and was drowned has been proved by the testimony given by a policeman on duty at the jetty who witnessed the incident, the remaining three Chinese citizens who were pushed into the water at the same time, and two boatmen who rescued them from the water."

This statement does not accurately set forth the reports and testimony of the persons named.

The report submitted by the policeman mentioned above stated that while he was on his post a passerby reported that two American sailors on returning to their gunboat pushed four Chinese into the water. This policeman did not witness the affair. Of the three Chinese who were rescued, only Kuang Tsao-hua made any reference to a fourth person and but one of the boatmen reported that he saw a fourth person in the water. Neither Kuang Tsao-hua nor the boatmen identified this person.

Upon careful consideration of all the evidence obtained in connection with the alleged assaults upon the four Chinese on July 11, 1933, and the alleged resultant drowning of Chao Ch'ing-yün, the Navy Department is of the opinion that this evidence is entirely insufficient to support the contention of the Chinese authorities that United States naval personnel were responsible for the drowning of Chao Ch'ing-yün or for the alleged assaults upon the other three Chinese. No witness could identify the two men alleged to have committed the assaults on the night of July 11, either as particular individuals or as members of the crew of the U. S. S. *Guam* or any other United States naval vessel, nor was Chao Ch'ing-yün identified by any witness as one of the men who was pushed into the water on this occasion.

This matter has been given the most serious attention by the various American authorities concerned and every effort has been made to ascertain the true facts of the case. The record shows that the American naval authorities took prompt action and conducted an exhaustive investigation, and that the American Consulate General at Hankow left no stone unturned to ensure that justice would be done. However, after a careful examination of the findings of the Navy Department and the American Consulate General at Hankow, as well as the reports of the Chinese officials, I am of the opinion that the evidence submitted fails to establish the responsibility of any members of the crew of the U. S. S. *Guam* for the death of Chao Ch'ing-yün or for the alleged assaults upon the other Chinese citizens concerned.

I avail myself [etc.] C. E. GAUSS

792998—53——52

393.9313/19

The American Minister in China (Johnson) to the Chinese Acting Minister for Foreign Affairs (Wang) [36]

No. 925 PEIPING, July 11, 1935.

EXCELLENCY: I have the honor to refer to Your Excellency's note of March 19, 1935,[37] concerning the death at Hankow in July, 1933, of one Chao Ch'ing-yün and the allegation of the Hankow Municipal Government that members of the crew of the U. S. S. *Guam* were implicated in the case.

The above-mentioned note was forwarded by the Legation to the Department of State for its consideration and instructions. The Department has now informed the Legation that it has carefully reexamined the record of the case and is impelled to reiterate the conclusion of the American naval authorities to the effect that there is no credible basis for the charges against the American sailors.

As Your Excellency was informed in the Legation's note of October 26, 1934, this matter has been given the most serious attention by the various American authorities concerned and every effort has been made to ascertain the true facts of the case. The record shows that the American naval authorities took prompt action and conducted an exhaustive investigation, and that the American Consulate General at Hankow left no stone unturned to ensure that justice would be done. However, after a careful examination of the findings of the Navy Department and the American Consulate General at Hankow, as well as the reports of the Chinese officials, the Legation is of the opinion that the evidence submitted fails to establish the responsibility of any members of the crew of the U. S. S. *Guam* for the death of Chao Ch'ing-yün. In this connection the Legation desires to emphasize the fact that the statement of all three physicians (American, German and Chinese) would appear definitely to preclude that the corpse found on the jetty on July 13, 1933, was that of the person who was allegedly pushed into the water on the evening of July 11, 1933.

I avail myself [etc.] NELSON TRUSLER JOHNSON

[In his despatch No. 24, October 11, 1935, the Ambassador in China reported that "a complete deadlock exists in the views of the Department of State and the Ministry of Foreign Affairs" in this case (393.9313/23). Upon reviewing the entire matter, the Department on March 8, 1937, concluded that since "no substantial evidence has

[36] Copy transmitted to the Department by the Minister in China in his despatch No. 3684, July 11; received August 10.

[37] Not printed.

been produced showing involvement therein of American Government personnel this Government could admit of no liability whatsoever." (393.9313/28).]

ATTITUDE OF THE DEPARTMENT OF STATE ON THE EXPORT TO CHINA OF ARMS OR MUNITIONS, INCLUDING MILITARY AIRCRAFT [38]

893.113/1579

The Secretary of State to the British Ambassador (Lindsay)

WASHINGTON, January 10, 1935.

EXCELLENCY: I have the honor to acknowledge the receipt of your note No. 396 of December 12, 1934,[39] concerning the procedure in force in Great Britain in regard to the control of the exportation of arms to China. I am pleased to note that this procedure conforms in its essential features to the procedure which this Government has followed since March 4, 1922.

I have noted the difference which exists between the practice of your Government and the practice of this Government in connection with the definition of military aircraft. Although I appreciate the force of the reasons which you adduce in support of the less stringent definition which has been adopted by your Government, I feel that the more stringent definition which we have adopted is more consistent with the objective of preventing the development or the continuance in China of conditions of domestic violence and of cooperating with the Chinese Government in its efforts to maintain an effective control of the import into China of arms and munitions of war. I shall, therefore, pending some international agreement in regard to what constitutes military aircraft, continue to apply this definition in respect to exports to China, unless the continuance of this procedure should be found to result in placing American exporters at an unjustifiable disadvantage as compared with their principal foreign competitors.

I note that your Government has not as yet completed its consideration of the subject of the export of arms to China and that it will not fail to inform this Government of the conclusions which are finally reached in the matter. I venture to express the hope that in studying this matter, your Government may find it possible to give special consideration to the possibility of modifying the procedure now in effect in Hong Kong in respect to the transshipment of arms to China. As I pointed out in my note of August 10,[40] we have, for a number of years, proceeded upon the presumption that under present political conditions in China, shipments from the United States to

---

[38] Continued from *Foreign Relations*, 1934, vol. III, pp. 490–522.
[39] *Ibid.*, p. 521.
[40] *Ibid.*, p. 508.

Hong Kong are destined for China. Unless that presumption can be overcome by the exporter in the United States, the exporter has been required to make application for license to export. When the consignees mentioned in such applications are firms duly registered by the Hong Kong authorities as dealers in firearms and when the articles covered by such applications appear on their face to be destined for the trade in Hong Kong, export licenses are issued without awaiting an expression of the desires of the Chinese Government. I may state, in this connection, that it is the practice of the Department to grant, without reference to the Chinese Government, licenses covering shipments to China of comparatively small quantities of small arms (such as shotguns, revolvers and sporting rifles) for the retail trade. During recent months shipments of this category to Hong Kong have reached such proportions as to cause suspicion that the articles were not for consumption by the normal retail trade. I, therefore, instituted an investigation of the situation, as a result of which I am informed that when an exporter in the United States obtains an export license stating, on the basis of information received from the consignee in Hong Kong, that Hong Kong is the destination of the shipment, the consignee may, before the shipment arrives, register with the Hong Kong police the sales contract showing that the shipment is in reality destined to China, and that in such cases the shipment is considered as being in transit and is permitted by the Hong Kong authorities to proceed to China. Thus in the absence of any knowledge with regard to who the actual importers in China may be, it obviously is impossible to determine whether the goods in question are in reality destined for consumption by the normal retail trade in China or whether they are to be put to other uses with regard to which the National Government desires to maintain effective import control. I understand further that under the procedure now obtaining in Hong Kong considerable quantities of small arms and ammunition are finding their way into China without the permission of the Chinese National Government. Although it is clear that, with regard to goods in transit, the Government of Hong Kong is bound by the provisions of the Convention and Statute on Freedom of Transit, signed at Barcelona on April 20, 1921,[41] I venture to suggest that the Hong Kong authorities accept as the determining factor as to what constitutes goods in transit, documents issued in the country in which the shipment originates. It would not appear that the Hong Kong authorities would be violating either the spirit or the letter of the Statute of Freedom of Transit in insisting that some evidence of the intention to transship in Hong Kong appear in the bill of lading or other document relating to the shipment prepared

[41] League of Nations Treaty Series, vol. VII, p. 11.

in the country of origin. On the contrary, those authorities would seem to be merely acting pursuant to the provisions in Article V of the Statute that "Each Contracting State shall be entitled to take reasonable precautions to ensure that . . . goods . . . are really in transit." [42]

The regularization of the present situation in the manner suggested would result in eliminating the present subterfuge now indulged in by Hong Kong importers (whereunder they now inform American exporters that shipments are destined for Hong Kong and inform the Hong Kong authorities that the shipments are destined for China) and would cause Hong Kong importers to furnish American exporters with correct information in regard to the ultimate destination of the goods. The American Government would thereupon be in position to determine whether the assent of the Chinese Government should be obtained prior to approval of license for export.

Accept [etc.] For the Secretary of State:
WILLIAM PHILLIPS

893.113/1579

*Memorandum by Mr. Joseph C. Green of the Division of Western European Affairs of a Conversation With the First Secretary of the British Embassy (**Wiggin**)*

[WASHINGTON,] January 14, 1935.

In compliance with the Under Secretary's instructions, I requested Mr. Wiggin to call at my office this morning. I handed him the note of January 10, addressed to the British Ambassador in reply to the latter's note No. 396 of December 12, 1934.[43] Mr. Wiggin read this note with care. I then permitted him to read despatch No. 1056 of November [*October*] 24, 1934, from the Consul General in Hong Kong.[44] We discussed at some length the Hong Kong regulations in respect to the transshipment and export of arms, with special reference to the provisions of the Convention and Statute on Freedom of Transit, signed at Barcelona on April 20, 1921.

Mr. Wiggin said that it was obvious that the Hong Kong control of the arms traffic to China needed to be stiffened and that the suggestion contained in the penultimate paragraph of our note of January 10 was a very reasonable suggestion.

J[OSEPH] C. G[REEN]

---

[42] League of Nations Treaty Series, vol. VII, p. 29. Omissions indicated in the original communication.
[43] *Foreign Relations*, 1934, vol. III, p. 521.
[44] *Ibid.*, p. 513.

893.113/1591

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

No. 3291 PEIPING, January 23, 1935.
[Received February 25.]

SIR: I have the honor to enclose a copy of the Canton Consul General's despatch to the Legation, No. 5, January 8, 1935,[46] reporting the difficulties being encountered by the representative of the Boeing Aircraft Company of Seattle in his efforts to effect delivery of military planes under a contract with the General Headquarters of the First Group Army Corps, Canton, because of the American Government regulations which do not permit the exportation of the planes in question except upon the request of the National Government communicated to the Department of State through the Chinese Legation at Washington, which request the authorities at Canton have been unable to obtain except under circumstances which are tantamount to a refusal by the National Government to issue the necessary instructions.

As the Consul General's subsequent telegram to the Legation of January 15, 12 noon, a copy of which is enclosed,[46] indicates that the representative of the American company has departed for Shanghai, having been unable to produce any definite evidence in support of his contention that American sellers are being placed in a disadvantageous position in comparison with those of other nationalities by reason of the American Government regulations in this matter, there would appear to be no further action required upon this particular case at the present time.

In this connection, however, I have the honor to invite the Department's particular attention to the Legation's despatch No. 2904, August 14, 1934,[47] and to the Hongkong Consulate General's despatch to the Department No. 1056, October 24, 1934.[48] These despatches and previous despatches from the Consulate General at Hongkong to the Department, indicate that the Chinese Government has not been able to enforce its regulations uniformly in respect to all imports of arms and munitions of war, and that there is considerable evidence that American merchants are being placed in a disadvantageous position in comparison with those of other nationalities.

From the information contained in the Yunnanfu Consul's despatch to the Department No. 199, July 21, 1934.[49] together with that con-

[46] Not printed.
[47] Not printed; for enclosure to this despatch, see *Foreign Relations*, 1934, vol. III, p. 511.
[48] *Ibid.*, p. 513.
[49] *Ibid.*, p. 506.

tained in the Legation's despatch referred to above, the Department will note that the National Government exercises no actual control over importations of arms and munitions of war into the Province of Yunnan from French Indo-China, and that the French Government does not interfere with such shipments, at least not those of French origin.

From the despatch of the Consulate General at Hongkong referred to above, it appears that the authorities there take the position that under the Barcelona Convention of 1921, they are unable to prevent the forwarding to China from Hongkong of arms and munitions when such shipments enter Hongkong as cargo to be transshipped to an ultimate destination. It would seem that the status of the cargo as a transit shipment need not be shown as having been declared at the time of export to Hongkong; it may be shown at Hongkong at any time prior to the arrival of the shipment, the production of a sales contract showing an ultimate destination beyond Hongkong being accepted as giving the shipment transit status.

It appears to the Legation that the situation actually existing at Hongkong, as disclosed in the reports from the Consul General at that post, permits practically unrestricted shipment of arms and munitions (including airplanes) to Canton through Hongkong from European countries which do not restrict exportations to Hongkong or inquire as to any ultimate destination of shipments made to that port.

If there is any disadvantage to American manufacturers arising out of the Hongkong situation it results from the action of the American Government, acting in good faith, in inquiring as to the ultimate destination of shipments exported as consigned to Hongkong.

As to the uniform enforcement by the Chinese Government of its restrictions on the importation of arms and munitions, attention is directed to the report of the Consul General at Canton (Legation's No. 3025 of October 11, 1934, to the Department [50]) to the effect that, according to the Chinese Maritime Customs and the Canton Air Force authorities, "Canton 'huchaos' are sufficient to secure entry of airplanes into Canton."

In connection with the proposed sale of these Boeing fighting planes to the Canton air force, I have to report that in November last, the Counselor of the Legation at Nanking was approached by the Boeing representatives, directly and through the Consulate General at Hongkong, with the suggestion that, with a view to expediting action, he inquire as to the status of the application made to the Ministry of War by the Canton First Army Air Force for National Government permits (or authorization to the Chinese Minister at Washington) to facilitate the export of the planes from the United States to China.

[50] *Foreign Relations*, 1934, vol. III, p. 513.

Mr. Peck referred the request to the Legation, which instructed him that it considered it inadvisable for him to take any action in the matter, it appearing that the appropriate persons to approach the Ministry of War were the purchasers of the planes, the Canton First Army Air Force. The relations between the Nanking government and the Canton faction at the time were such as to make it undesirable that the Legation interest itself in the matter. It appears from Consul General Spiker's [51] despatch No. 5 of January 8th, 1935, transmitted herewith,[52] that the Nanking government finally replied that it would give the necessary instructions to the Chinese Legation at Washington provided the purchase were made through the Central Bank of China at Shanghai and the airplanes delivered to the order of that bank—a reply tantamount to a refusal to permit the planes to be delivered to the Cantonese forces.[53]

Respectfully yours, C. E. GAUSS

893.113 Airplanes/95

Memorandum by Mr. Raymond C. Mackay of the Division of Far Eastern Affairs

[WASHINGTON,] February 15, 1935.

The Chinese Minister [54] called at the Department and was received by Mr. Mackay.

The Minister stated that yesterday (February 14) he received from his Government at Nanking a telegram reporting the desire of the authorities at Canton to obtain from the United States twenty Boeing bombing planes; that the Chinese Government had not approved of such a purchase; and that, in consequence, the Chinese Government would appreciate cooperation on the part of the Department to the extent of withholding permission for the export of such a shipment, if and when request is made therefor, until such time as the Chinese Government shall have indicated to the Department its desire that export be authorized.

Mr. Mackay replied that, as far as he was aware, the Department had not of late received a request for the issuance of an export license covering shipment to Canton of twenty Boeing bombing planes; that

---

[51] Clarence J. Spiker, Consul General at Canton.

[52] Not printed.

[53] The Minister in China informed the Department in his despatch No. 3754, August 19, that Mr. Leighton W. Rogers, Vice President of the American National Aeronautical Chamber of Commerce and member of the American Economic Mission, had obtained a National Government permit to cover the 10 Boeing fighter planes in question (893.113/1621).

[54] Dr. Sao-ke Alfred Sze.

if such request were received it would not, in the absence of the usual request by the Chinese Government, be authorized by the Department if the goods in question were of a military character.

The Minister expressed his appreciation of the Department's cooperation in the matter.

(NOTE: Subsequent investigation discloses the fact that last October the Department received an application for the issuance of an export license covering shipment to Canton of ten Boeing planes equipped with armament. This application is now on file in the Department awaiting the receipt from the Chinese Government of an indication of its wishes in the matter.)

893.113 Airplanes/96: Telegram

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

PEIPING, February 27, 1935—3 p. m.
[Received February 27—5: 15 a. m.]

98. Foreign Office in note dated February 13th[55] announces cancellation of previous regulations governing importation of airplane materials and detailed rules for their enforcement and promulgation of new regulations. Foreign merchants are requested to change procedure immediately and use letters of approval and permits issued by the National Aviation Commission instead of those formerly issued by Ministry of Military Administration.

New regulations specify that 10 copies each of shipping declaration and list of materials should be submitted; that stamp tax and permit fee will be $6.50 for each permit; that a guarantee bond by a reliable business concern be produced; and that these documents and fees be submitted through the appropriate diplomatic mission or consulate to Ministry of Foreign Affairs for transmission to the National Aviation Commission.

Letters and permits previously issued covering shipments already in transit remain effective within period of validity of such letters and permits as does procedure at port of importation. Permits covering shipments not yet in transit should be exchanged for new ones. Procedure for exchange of permits requires submission of two copies of list of articles and stamp tax of $1.50 by foreign merchant concerned through his diplomatic mission or consulate.

---

[55] Not printed; the main point of difference between the new regulations announced therein and the old regulations was that jurisdiction was transferred from the Ministry of Military Administration under the Executive Yuan to the National Aviation Commission under control of General Chiang Kai-shek.

Foreign Office states that the new regulations are now in hands of printers and that copies will be supplied at a later date.[56]

For the Minister:
GAUSS

893.113 Airplanes/96 : Telegram

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

WASHINGTON, March 12, 1935—8 p. m.

75. Your 98, February 27, 3 p. m. The Department invites your attention to the requirements of the new regulations governing importation of airplane materials with respect to stamp tax and permit fee and submission of the documents and fees through appropriate diplomatic mission or consular office and points out that compliance therewith would appear, unless an appropriate reservation is made, to imply assent on the part of this Government to the imposition of the fee and the stamp tax on American citizens. It is suggested that the Legation consult with the legations of the other powers concerned and submit recommendations for the consideration of the Department.

HULL

846G.113/232

The British Ambassador (Lindsay) to the Secretary of State

No. 76 WASHINGTON, March 27, 1935.

SIR: With reference to the note which you were good enough to address to me on the 10th January last, I have the honour to inform you that the procedure in force in Hong Kong in respect to the transshipment of arms to China has been most carefully reconsidered by His Majesty's Government in the United Kingdom in consultation with the Governor of Hong Kong.

It transpires that the Governor of Hong Kong was already considering how to deal effectively with the loophole pointed out in your note of January 10th; and would be very glad to cooperate with the United States Government with a view to closing it.

With this end in view the Government of Hong Kong suggests that they should be furnished with copies of all licenses or other forms of authorisation issued in respect of the export of arms to Hong Kong. They would then, in those cases where Hong Kong was indicated as the port of ultimate destination, refuse to allow re-export to China without the production of a Central Government "huchao".

The Government of Hong Kong add that it would not be practical to require, as evidence that goods were in transit, a through bill of

[56] A copy of the new regulations was transmitted to the Department in the Legation's despatch No. 3435, March 8; received April 8.

lading, since through bills of lading from trans-ocean ports to Canton are not normally obtainable.

His Majesty's Government trust that the above solution of the difficulty will be found acceptable by the United States Government.

I have [etc.] R. C. LINDSAY

893.113 Airplanes/100

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

No. 3480 PEIPING, March 29, 1935.
[Received April 20.]

SIR: I have the honor to refer to the Legation's telegram No. 98, February 27, 3 p. m., the Department's telegram No. 75, March 12, 8 p. m., and the Legation's despatch No. 3435 of March 8, 1935,[57] in regard to the newly promulgated Regulations Governing the Importation of Aeronautical Equipment.

The Department expressed some concern in its telegram No. 75 over the requirements for the payment of stamp tax and permit fees and the submission of documents through the diplomatic mission or consulates. Since the Legation's office at Nanking is familiar with these questions, Counselor Peck's comments on the Department's telegram were requested. A copy of the Legation's instruction to Counselor Peck, dated March 20, 1935, and of his reply dated March 25, 1935, are enclosed for the Department's information.[58]

The Department will note that Counselor Peck agrees with the Legation that it is unnecessary and would be undesirable to make reservations in regard to the points raised by the Department. In the absence, therefore, of contrary instructions from the Department, the Legation will not for the time being make reservations in regard to these new regulations. As stated in the Legation's instruction to Mr. Peck, the British Legation has not made and does not contemplate making any reservations.

Respectfully yours, NELSON TRUSLER JOHNSON

893.113/1600

The British Ambassador (Lindsay) to the Secretary of State

No. 89 WASHINGTON, April 8, 1935.

SIR: You will recollect that in his note No. 265 of 4th August, 1934,[59] Mr. Osborne explained the views of His Majesty's Government in the United Kingdom with regard to the export of arms to China,

---

[57] Despatch not printed.
[58] Neither printed.
[59] *Foreign Relations*, 1934, vol. III, p. 506.

and made certain enquiries on the subject to which you were good enough to reply in your note of 10th August.[60]

2. Simultaneously with the enquiries addressed to the United States Government, His Majesty's Government made similar enquiries of the French, Belgian, Italian, Japanese, Czechoslovakian, Swedish, Polish, Spanish, Swiss, Danish and Norwegian Governments. From the replies received it appeared that the attitudes adopted by all those Governments except the Polish, the Belgian, the Swiss and the Japanese, were wholly satisfactory, in that they indicated unqualified compliance with the Chinese Government's regulations.

3. The Polish Government stated that they were prepared to follow the same attitude as His Majesty's Government provided that the other arms producing countries acted similarly; and that, as all Polish arms factories were state-owned, they would be in a position effectively to implement their undertaking. Since no appreciable exports of arms from Poland to China took place in the year 1933, His Majesty's Government are disposed to accept this reply as satisfactory. The Japanese Government answered that they require a "Huchao" issued by the Chinese Central Government before permitting the export of arms to China, but they refuse to require the Chinese Minister's countersignature. The Swiss Government stated that there were no regulations in Switzerland controlling the manufacture and trade in arms, and that the authorities had only been able to inform certain private firms of the Chinese regulations. The Belgian Government stated that they would only consider the imposition of a measure of control when they had received assurances from all countries concerned that identical measures had been taken and effectively applied.

4. These replies, when received, were carefully considered by His Majesty's Government, who have decided that a further approach should be made to the Belgian and the Swiss Governments with a view to securing practical uniformity of procedure among all the Governments concerned. His Majesty's Representatives in Brussels and in Berne have accordingly been instructed to address further representations to the Governments to which they are accredited.

5. The French Embassy in London have informed the Foreign Office that, subsequent to the above mentioned enquiry undertaken by His Majesty's Government, the French Government themselves enquired of eight governments as to their attitude. In their opinion all the replies that they have received appear to be satisfactory, with the exception of that from Japan.

6. If the United States Government agree with the view of His Majesty's Government that the replies of the Swiss and Belgian Governments, as indicated above, are unsatisfactory, His Majesty's

[60] *Foreign Relations*, 1934, vol. III, p. 508.

Government would regard it with satisfaction if the United States Government could see their way to instruct their representatives in Berne and Brussels to support the renewed representations which have been made by His Majesty's Representatives in those two capitals.

7. I have the honour to request that consideration may be given to this suggestion as soon as may be conveniently possible.

I have [etc.] R. C. LINDSAY

893.113/1600

The Secretary of State to the British Ambassador (Lindsay)

WASHINGTON, April 15, 1935.

EXCELLENCY: I have the honor to acknowledge receipt of your note No. 89 of April 8, 1935, in regard to the export of arms to China, in which you outline the steps which your Government has taken with a view to obtaining practical uniformity of procedure on the part of all the governments concerned. You state that the replies of the Belgian and Swiss Governments to the inquiries addressed to those governments have been unsatisfactory and express the hope that this Government would see its way to instruct its representatives in Brussels and Bern to support the renewed representations which have been made by the British representatives in those two capitals.

I have the honor to inform you that the Department is instructing the representatives of this Government at Brussels and Bern to cooperate with their British colleagues with a view to obtaining practical uniformity of procedure by all the governments concerned in the matter of the export of arms to China.

Accept [etc.] For the Secretary of State:
WILLIAM PHILLIPS

846G.113/232

The Secretary of State to the British Ambassador (Lindsay)

WASHINGTON, April 19, 1935.

EXCELLENCY: I have the honor to acknowledge the receipt of your note No. 76 of March 27, 1935, with further reference to the procedure now in force in Hong Kong in respect to the transshipment of arms to China. I greatly appreciate the cooperative attitude of your Government and of the Government of Hong Kong in dealing with this matter, and I have given careful consideration to the suggestion of the Government of Hong Kong that this Government furnish it with copies of all export licenses issued in respect to shipments of arms to Hong Kong. I am disposed to view this suggestion with favor, but before acting upon it I feel that it is necessary for me to have further

information in regard to the procedure which the Government of Hong Kong contemplates.

Your several recent notes on the subject of restrictions upon the exportation of arms and munitions to China make it evident that your Government and this Government have the same end in view. It is clear that we both desire that such restrictions upon the exportation of arms and munitions to China may be placed in effect by the Governments of all the important arms manufacturing countries as will tend to prevent the use of these arms and munitions for the fomenting of civil disturbance in China. We desire also that there may be such practical uniformity of procedure among all the Governments concerned that these measures of supervision and control may not result in giving advantages to the manufacturers and exporters of one country which are not enjoyed by the manufacturers and exporters of other countries.

It would appear that were this Government to adopt the procedure suggested in your note under acknowledgment, the result might be, unless your Government and other Governments adopted a similar procedure, that the loophole which I pointed out in my note of January 10 might be closed in respect to arms and munitions of American origin while remaining open in respect to arms and munitions of British and other origins. I should appreciate it, therefore, if you could find it possible to inform me as to whether in case this Government were to transmit copies of export licenses to the Government of Hong Kong, that Government would apply to arms and munitions of British or other origins a procedure similar to that which would be applied to arms and munitions exported from the United States.

Accept [etc.] For the Secretary of State:
WILLIAM PHILLIPS

893.113/1603

The Minister in Switzerland (Wilson) to the Secretary of State

No. 3863 BERN, April 30, 1935.
[Received May 9.]

SIR: With reference to the Department's instruction No. 2929 of April 15, 1935,[61] concerning export of arms to China, I have the honor to transmit herewith copy of the Legation's note No. 629 of April 29, 1935, to the Swiss Federal Political Department.[61]

I discussed this matter with the British Minister here and he stated that he had already addressed two notes on this subject to the Swiss Government and had been informed by the French Embassy here that it had likewise taken up the matter with the Swiss Government.

[61] Not printed.

The British Minister informed me that he had been told by Mr. de Stoutz, Chief of the Division of Foreign Affairs of the Federal Political Department, that the Swiss Government had delayed passing any law on this matter in the hope that it would be taken care of by an international agreement, but that since there did not seem to be any possibility that such an agreement would be entered into at least for the present, he had submitted to the Department of Justice and Police a project of a decree, asking its opinion as to whether or not such a decree would be constitutional. Mr. de Stoutz said that there was grave doubt that the Federal Council had the authority to issue such a decree regulating this matter without having it passed by the Assembly.

The Legation will keep the Department informed of any further developments in this matter.

Respectfully yours, For the Minister:
STANLEY HAWKS
Secretary of Legation

846G.113/233 : Telegram

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

WASHINGTON, May 3, 1935—5 p. m.

In view of the size and frequency of shipments of small arms and ammunition to Hong Kong, the Department, in the light of the information contained in Hong Kong's confidential despatch No. 1056 of October 24, 1934,[62] has informed applicants for license to export that it desires to receive conclusive evidence that the articles are for ultimate use in Hong Kong or, in the event that the articles are for ultimate use in China, the name of the purchaser in China and a statement in regard to the express purpose for which the articles are to be used; also that in case the shipment is of a size or character indicating that it is not to meet usual and legitimate retail needs for small arms (such as small shipments of revolvers, sporting rifles and shotguns, and cartridges and shells therefor), the Department will not be in position to grant license to export until notice has been received through the Chinese Legation at Washington that the Chinese Government desires that export be permitted. American exporters have endeavored to comply with the Department's wishes but have not been able to obtain from Hong Kong importers information of a satisfactory character.

Smith and Wesson has now presented to Department applications for license to export (*a*) to the Hong Kong Sporting Arms Store, 22

---

[62] *Foreign Relations*, 1934, vol. III, p. 513.

Pottinger Street, two hundred ninety-three .38 caliber revolvers and (*b*) to Ying Tack Kee, 44 Pottinger Street, fifty-four .38 caliber revolvers and six .32 caliber revolvers. Department desires that you tactfully endeavor to ascertain the ultimate destination of these revolvers and, in the event that the ultimate destination is China, the name of the purchaser in China and the express purpose for which the arms are to be used. It may be that the Hong Kong importers are placing these orders with Smith and Wesson on the basis of orders which the Hong Kong importers have already received in Hong Kong or from China. If this should be the case, it would be helpful to the Department to be informed by whom such orders were placed with the Hong Kong importers. In case the Hong Kong importers should have no definite unfulfilled purchase orders for these revolvers, a list of the persons or organizations to whom they have made recent sales of American revolvers would assist in forming an estimate of the probable ultimate purchasers.

Please send Department brief report by naval radio as soon as practicable and submit detailed report by mail. Department suggests that in your radio report you not list actual names of past or prospective purchasers but merely indicate them by categories such as (*a*) individual private purchasers in Hong Kong or China, (*b*) retail stores in specified cities, (*c*) Chinese police organizations and (*d*) other Chinese governmental organizations.

HULL

893.113/1604

The Minister in Switzerland (Wilson) to the Secretary of State

No. 3871 BERN, May 4, 1935.
[Received May 15.]

SIR: With reference to the Legation's despatch No. 3863 of April 30, 1935 concerning the export of arms to China, I have the honor to transmit herewith copy and translation of a note dated May 2, 1935 from the Federal Political Department [63] concerning this matter.

From this note it will be seen that the Political Department states that the Federal authorities are at present studying the method of establishing legal provisions for the strictest control of the export of arms and munitions from Switzerland to foreign countries and that it states further that nothing indicates the possibility that arms and munitions of war are being manufactured in Switzerland for contraband shipment into Chinese territory.

Respectfully yours, For the Minister:
STANLEY HAWKS
Secretary of Legation

---

[63] Not printed.

893.113 Airplanes/103 : Telegram

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

NANKING, May 7, 1935—3 p. m.
[Received 12:50 p. m.]

96. 1. Beall, Far Eastern representative of Boeing Aircraft Company, now in Shanghai, writes that his South China agent has been informed by the First Group Army Corps, Canton, that latter has received from National Government an import *huchao* covering 10 Boeing armed "fighting" airplanes and that Chinese Foreign Office has telegraphically requested Chinese Legation in Washington to make official request of the Department for required export permit. Beall states he received this information 2 weeks ago but that the Chinese Minister has not yet approached the Department and he requests Legation to inquire of Foreign Office with a view to learning whether above statements of Cantonese military are correct.

2. Having in mind fourth paragraph of Department's regulations of May 28, 1934,[64] and the complicated nature of the relations between Nanking and Canton, I respectfully request the Department's instructions before acting upon Beall's request.

3. Copy by mail to Peiping.

JOHNSON

893.113 Airplanes/103 : Telegram

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

WASHINGTON, May 9, 1935—4 p. m.

32. Your 96, May 7, 3 p. m. The Department desires that you inform Beall that as the proposed inquiry relates to the question of bringing about notification to the Department that the Chinese Government desires that export of the airplanes from the United States be authorized, the Legation is not in position to interpose in a matter where the initiative and responsibility lie with the Chinese Government and the interested American firm.

HULL

893.113 Airplanes/101

The Secretary of State to the Secretary of Commerce (Roper)

WASHINGTON, May 14, 1935.

MY DEAR MR. SECRETARY: The receipt is acknowledged of Mr. Mitchell's[65] letter of April 22, 1935, enclosing a copy of a letter of

[64] *Foreign Relations*, 1934, vol. III, p. 497.
[65] E. Y. Mitchell, Assistant Secretary of Commerce.

March 18, addressed by Mr. A. L. Patterson, representative in China of the Bureau of Air Commerce, to the Assistant Director of Air Commerce,[66] in regard to the restrictions now in effect on the exportation of aircraft and aircraft parts and accessories to China.

In reply, I have to inform you that the situation which Mr. Patterson discusses in his letter has received the attentive consideration of the Department during the past three or four years. The principal arms exporting countries of the world have placed restrictions upon the exportation of arms and implements of war destined to China, with a view to preventing their use for the fomenting of civil disturbance in that country. We have made efforts to secure such practical uniformity of procedure among all the governments concerned, that these measures of supervision and control may not result in giving advantages to the manufacturers and exporters of one country which are not enjoyed by the manufacturers and exporters of other countries. In most respects, this practical uniformity has now been secured, except as concerns the regulations of the Belgian and Swiss Governments. Efforts are now being made to persuade these two Governments to modify their regulations so as to bring them into line with those of the other exporting governments. In one important respect, this practical uniformity has not as yet been secured. I refer to the definition in the regulations now in effect of civil and military aircraft. This definition and the distinction between the two types of aircraft which should be applied in respect to shipments destined to China has recently been the subject of discussion between this Government and the British Government. In its application to the international traffic in arms in general, it has recently been the subject of discussion in Committees of the General Disarmament Conference in Geneva. No international agreement has, however, as yet been reached on this point. In the meantime, this Department, although it is not at present prepared to modify the procedure now in force, is continuing to give this matter its careful consideration in the light of two principal objectives: (*a*) that the export of arms and munitions of war from the United States to China shall not promote in China conditions of domestic violence and (*b*) that American manufacturers and exporters be not placed at an unjustifiable disadvantage as compared with their principal foreign competitors.

I enclose, for your information, a copy of the Revised Regulations in regard to the Export to China of Arms and Munitions of War, of May 28, 1934.[66a] You will note that export licenses are required for

[66] Neither letter printed.

[66a] *Foreign Relations*, 1934, vol. III, p. 497.

military aircraft and for spare parts and equipment therefor. Licenses are not required for aircraft, other than those of specified types, unless the Department has reason to believe in any particular case that the shipment is to be used for military purposes, nor are export licenses required for airplane motors or airplane parts and accessories, unless the Department has reason to believe in any particular case that the shipment is to be used for military purposes.

I should be pleased to receive any further information in regard to the situation in South China, in respect to export of American aircraft, engines, parts and accessories, which may be brought to your attention.

Sincerely yours, For the Secretary of State:
WILLIAM PHILLIPS
Under Secretary

846G.113/234 : Telegram

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

HONG KONG, May 15, 1935—3 p. m.
[Received May 16—8 : 55 p. m.]

Referring to Department's telegram May 3, 5 p. m., Ying Tack Kee claims to have no advance orders for Smith and Wesson revolvers, and is simply replenishing stock. Has approximately 70 revolvers of various kinds on hand now. Hong Kong police inform that Ying Tack Kee has no contracts at the present time with South China, which contracts are required to be registered with police at the time they are made in order to establish status of shipment as transshipment cargo when it arrives in Hong Kong. Reference to page 3, paragraph 2 of despatch No. 1056 [87] noting that legitimate shipments to Hong Kong may still find way into China via Macao. The small quantity ordered and the fact of no China contracts tend to suggest legitimacy of the shipment, however.

Hong Kong sporting arms store has Canton (*d*) contracts to supply 212 Smith and Wesson .38 caliber revolvers.

Respectfully suggest undesirability of acquainting American exporters with the fact that information of the above nature is obtainable by this office from the Hong Kong police. Full report by mail.

GOURLEY

---

[87] October 24, 1934, *Foreign Relations*, 1934, vol. III, p. 513.

846G.113/237

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

[WASHINGTON,] May 21, 1935.

Mr. Green of WE[68] and Mr. Mackay and Mr. Hamilton of FE[69] discussed in detail the situation relating to the export from the United States of small arms and ammunition to Hong Kong, particular reference being had to Hong Kong's confidential telegram of May 17, 1 p. m. [*May 15, 3 p. m.*]. As a result of this discussion it was agreed that the important factors in the situation as it now exists are as follows:

1. The American exporters have endeavored without success to obtain from the Hong Kong importers the information desired by the Department to enable the Department to determine the ultimate purchaser;
2. The American Consul General at Hong Kong has been unable to obtain this information or information which would afford the Department a basis for prescribing what particular amount of arms or ammunition might be construed as for the retail trade;
3. Any attempt by the Department to fix a definite limit as to the amount of arms or ammunition which might be exported to Hong Kong during a particular period would operate to bring about discrimination as between one American exporter and another American exporter;
4. The Department has under discussion with the British Government a method of handling the situation at Hong Kong, which, if accepted by the British Government, offers a reasonable prospect of working satisfactorily;
5. Should the Department now devide to permit practically no exports of small arms and ammunition to Hong Kong, such decision would result in diverting the present orders now obtained by American exporters to exporters from other countries, without effecting a reduction in the amounts imported into China through Hong Kong.

In view of the foregoing factors, Messrs. Green, Mackay and Hamilton came to the conclusion that, pending the receipt of a reply from the British Government to the last communication from the Department in regard to the situation at Hong Kong, the Department should approve applications for license to export to Hong Kong shipments of small arms and ammunition except when particular circumstances seem to warrant the withholding of a license for any particular shipment.[70]

---

[68] Division of Western European Affairs.
[69] Division of Far Eastern Affairs.
[70] The following note was appended to this memorandum by the Under Secretary of State: "Assuming that this is a temporary arrangement I approve your recommendation. We should clear the matter up with the British as soon as possible. W[illiam] P[hillips]."

893.113/1609

The Chargé in Belgium (Sussdorff) to the Secretary of State

No. 475 BRUSSELS, May 29, 1935.
[Received June 7.]

SIR: I have the honor to refer to the Department's instruction No. 204, of April 15, 1935, and the Embassy's despatch No. 452, of May 6, 1935,[71] concerning the Belgian policy regarding the export of arms to China.

In this connection, I now have the honor to report that on May 20th I received a letter from Mr. MacKillop, First Secretary of the British Embassy in Brussels, stating that the British Embassy had been instructed by the British Foreign Office not to make any representations to the Belgian Government at the present time beyond those made in the Embassy's note of February 5, 1935. Mr. MacKillop further stated that the British Foreign Office had expressed the hope that the American Embassy in Brussels would now be in a position to support the representations already made by the British Government on this subject. For the Department's information, I am enclosing a copy of the British note of February 5, 1935, and the Belgian Foreign Office's reply of March 11, 1935.[71]

On May 23, 1935, I called on Mr. LeTellier, Chief of the Political Section of the Belgian Foreign Office, and made an oral statement of the viewpoint of our Government in accordance with the instructions contained in the last paragraph on page 3 of the Department's instruction under reference. Mr. LeTellier replied that he must consult the Belgian official who was handling the details of the case, who was absent on a week's leave. Mr. LeTellier telephoned me this afternoon that, as stated in its note of March 11, 1935, to the British Embassy, the Belgian Government still favors the conclusion of a general convention concerning traffic in arms which would cover trade with all countries rather than traffic with any single country. Mr. LeTellier stated emphatically, however, that in fact Belgian producers do not export arms to China without a license from the Chinese Government. "Without such a license, the exporters would run a risk and the Belgian Government would not support them."

The British Embassy considers this assurance very satisfactory and regards it as a distinct advance in obtaining the cooperation of the Belgian Government in the matter of the control of the shipment of arms to China.

Respectfully yours, LOUIS SUSSDORFF, JR.

[71] Neither printed.

846G.113/246

Memorandum by Mr. Joseph C. Green of the Division of Western European Affairs

[WASHINGTON,] June 12, 1935.

I called Mr. Broadmead, First Secretary of the British Embassy by telephone this morning and asked him whether any word had been received as yet from London in regard to the situation in Hongkong in respect to the transshipment and reexport of arms.

Mr. Broadmead replied that nothing had been received from the Foreign Office in reply to the despatch in which the Embassy transmitted a copy of our note of April 19, 1935. He said that he would figure out whether there had been time for the Foreign Office to consult the Hongkong authorities and to receive a reply and if circumstances appeared to warrant it, he would prepare a telegram to the Foreign Office requesting that action be expedited.

I thanked Mr. Broadmead and told him that we would greatly appreciate anything which he could do to expedite a reply to our note as the situation referred to was somewhat embarrassing.

JOSEPH C. GREEN

893.20/542

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

No. 3633 PEIPING, June 20, 1935.
[Received July 13.]

SIR: I have the honor to enclose for the Department's information a copy of despatch No. 32 of May 31, 1935, from the Consulate General at Canton [73] giving such information as it has been able to obtain in regard to the recently established airplane factory at Shiuchow, Kwangtung.

The despatch indicates that there will be a substantial market for American aviation materials if the present plans for the factory materialize, and, in connection with this matter, mentions the possible desirability of the American Government's revising its present attitude towards the enforcement of the regulations governing the exportation of American aviation materials to China. With reference to the Legation's attitude towards this question, the Department's attention is again invited to the Legation's despatch No. 3291 of January 23, 1935, in which the present unsatisfactory situation from the point of view of American business is described.

Respectfully yours, NELSON TRUSLER JOHNSON

[73] Not printed.

846G.118/249

The British Ambassador (Lindsay) to the Secretary of State

No. 179 WASHINGTON, July 1, 1935.

SIR: I have the honour to refer to your note of April 19th in which you expressed the opinion that the United States Government would be disposed to view with favour the suggestion that they should furnish the Government of Hong Kong with copies of all export licences issued in respect of shipments of arms to Hong Kong. At the same time you enquired whether, if the United States Government were to adopt this system, a similar arrangement would be enforced in respect of arms and munitions of British or other origin.

2. I have now been instructed by His Majesty's Principal Secretary of State for Foreign Affairs to inform you that this suggested procedure has been in force in the case of exports of arms from the United Kingdom for more than a year; consequently the loophole which His Majesty's Government in the United Kingdom and the United States Government are equally concerned to close has, in fact, already been closed to British exporters.

3. His Majesty's Government are now willing to intimate to those foreign governments, who have instituted an export licence system, that after a certain date the Governor of Hong Kong will be instructed to require, as evidence that arms consigned to China via Hong Kong are entitled to "in transit" status, the production of copies of the export licences issued; they would also suggest to those Governments that copies of the licences should be forwarded direct by the issuing authority to the Governor of Hong Kong.

4. In the case of those countries which have not instituted the export licence system the above procedure would obviously not be applicable. His Majesty's Government could not, however, view with equanimity a situation whereby the export of arms from Belgium and Switzerland—the two countries primarily concerned—would be in a position to benefit at the expense of exports from those countries which have instituted a licence system. They would therefore propose, if the procedure outlined above is adopted, to instruct the Governor of Hong Kong to require, in the case of exports from Belgium or Switzerland, the production of a through contract made between the exporter in Europe and the final importer in China before affording any consignment transit facilities. In point of fact the volume of trade emanating from these two countries has not been large in recent years. Statistics covering the 18 months ending 31st December, 1934 show that no arms exported from Switzerland passed through the colony during that period, while arms in transit from Belgium accounted for a value of some £14,500 in relation to a total trade of £828,000.

5. In view of the above explanations, I have been instructed to enquire whether the United States Government would be prepared to accept the procedure suggested in my note No. 76 of 27th March.

I have [etc.] R. C. LINDSAY

846G.113/249

The Acting Secretary of State to the British Ambassador (Lindsay)

WASHINGTON, July 22, 1935.

EXCELLENCY: I have the honor to refer to your Excellency's note of July 1, 1935, and previous correspondence, in regard to the procedure now in force in Hong Kong in respect to the trans-shipment and exportation of arms to China, and have to inform you that I have been pleased to note the procedure which your Government proposes to adopt with a view to closing the loophole which I pointed out in my note of January 10 and which we are equally desirous of dealing with effectively.

I am prepared to adhere provisionally to the procedure suggested in your note No. 76 of March 27 and I shall immediately initiate the practice of sending copies of all licenses issued for the exportation of arms and munitions to Hong Kong to the Consul General in that city for transmission to the Governor of Hong Kong.

I should appreciate it if you would inform me of the date after which the Governor of Hong Kong will require as evidence that arms consigned to China via Hong Kong are entitled to an "in transit" status the production of copies of the export licenses issued.

I have recently received information that shipments of arms from Hong Kong to China via Macau have been increasing in quantity. I should appreciate it if you could find it possible to confirm my assumption that the Governor of Hong Kong will take measures to assure himself that shipments of arms ostensibly destined to Macau are actually destined to that port and in case he finds that in reality their ultimate destination is China, he will apply to them the same regulations which he will apply to direct shipments of arms to China.

I assume that the Governor of Hong Kong will be instructed to continue to scrutinize shipments of arms and munitions from Belgium and Switzerland to China via Hong Kong, and I should appreciate it if you could find it possible to furnish me with information from time to time in regard to such shipments, in order that I may be in a position to determine whether the proportion which they attain warrants reconsideration of the arrangements which we have now agreed upon.

Accept [etc.] WILLIAM PHILLIPS

893.113/1579

The Acting Secretary of State to the British Ambassador (Lindsay)

WASHINGTON, August 1, 1935.

EXCELLENCY: I have the honor to refer to the note of the Secretary of State of August 10, 1934,[74] to Your Excellency's note of December 12, 1934,[75] and to the Secretary of State's reply of January 10, 1935, in which the positions of our two Governments in respect to the export of aircraft to China were set forth. The Secretary of State then expressed the hope that the British Government would be able to adopt an interpretation in regard to what constitutes military aircraft, which would be substantially similar to that of this Government. It was then explained that this Government regards as military aircraft (*a*) all types of aircraft actually fitted with armor, guns, machine guns, gun mounts, bomb dropping or other military devices, and (*b*) aircraft presumed to be destined for military use, whether actually fitted with armament or not. Licenses are required for the shipment to China of engines, spare parts, and equipment for such planes.

In reply, Your Excellency stated that your Government did not consider that under existing conditions the application of the stricter procedure in force in the United States was practical and that it proposed to continue to regulate the export of aircraft to China by its export procedure under which a license is not required for unarmed aircraft. It is our understanding moreover that under the British procedure licenses are not required for engines, spare parts and equipment for use therewith.

As an example of the practical difficulties to which this difference in procedure gives rise, I venture to cite a case which has recently come to the attention of this Government. An American firm refused an order for aircraft engines on the grounds that it would be impossible to fill it legally since the Cantonese Government which had placed the order had stated that it would not apply to the Nanking Government for a "huchau" to cover these shipments. Subsequently this firm received an order from a British company for a similar number of aircraft engines of the same type to be shipped to Great Britain. Upon inquiry it was ascertained that the engines in question were intended for re-export to Hong Kong and were destined for the Cantonese Government to which they would be delivered without a "huchau" from Nanking. The company has been informed that this Government is not in a position to raise definite objection to the exportation of these engines to England on the grounds of legality, even though their ultimate destination would be China.

---

[74] *Foreign Relations*, 1934, vol. III, p. 508.
[75] *Ibid.*, p. 521.

Inasmuch as the entire question of the licensing of military aircraft for export and the distinction to be drawn between civil and military aircraft has been the subject of intensive study in Geneva by the Committee for the Regulation of the Trade in and Private and State Manufacture of Arms and Implements of War, upon which both the British and American Governments were represented, I believe that many of the difficulties now experienced could be obviated if our Governments could agree to make their lists of arms and implements of war, for which licenses are required for shipment to China, conform more closely to the list prepared by the Committee in Article 4 of its report (Conf. D./100 (1)–April 12, 1935). The draft text of this Article was provisionally adopted by the Committee in a first reading.

Should your Government be disposed to consider the adoption of this suggestion, I should be glad to discuss the details of this procedure and its application with a view to attaining the results which both our Governments desire.

Accept [etc.] WILLIAM PHILLIPS

893.113 Airplanes/113 : Telegram

The Secretary of State to the Second Secretary of Legation in China (Atcheson), at Nanking

WASHINGTON, August 27, 1935—6 p. m.

69. Your 255, August 24, 6 a. m., and 257, August 26, 11 a. m.[76] Please refer to the Legation's circular instruction No. 204 of February 18, 1933,[77] particularly ante-penultimate paragraph.

The airplanes which the Chinese Military Administration wishes to purchase for purposes of aerial survey would seem to fall within the category of articles for which a license would be required for export from the United States to China. Therefore, unless there are inherent in the situation outlined in your telegrams under reference factors in addition to those mentioned by you, which would warrant the making of an exception to the Department's normal ruling that official channels of communication be not used for the transmission of inquiries or offers between prospective purchasers and sellers, Department would prefer that the Military Administration form its own connections with American manufacturers.

In the event that the Military Administration desires to communicate directly with the Stinson Aircraft Corporation, it is understood that telegrams may be addressed "Stinaircor, Detroit, Michigan."

---

[76] Neither printed.

[77] Not printed; but see Department's instruction No. 974, January 16, 1933, *Foreign Relations*, 1933, vol. III, p. 559.

As an alternative, the Military Administration might wish to take the matter up through the Chinese Embassy here, in which case Department would be prepared to assist Chinese Ambassador to extent of supplying needed information.

HULL

846G.113/258

The Secretary of State to the British Chargé (Osborne)

WASHINGTON, August 31, 1935.

SIR: I have the honor to refer to my note of August 1, 1935, and previous correspondence, in regard to the regulations governing the exportation of arms and implements of war to China. I invite your attention particularly to paragraph two of the Ambassador's note of April 8, in which it was stated that your Government had obtained information from several specified governments from which it appeared that their attitudes in respect to the exportation of arms to China were wholly satisfactory, in that they indicated unqualified compliance with the regulations of the Chinese Government.

I am now in receipt of information [78] which leads me to doubt whether the pertinent regulations of the Czechoslovak Government can be considered as wholly satisfactory. It appears that a shipment, comprising 400 machine guns and two million rounds of ammunition, caliber 7.92, from Brno, Czechoslovakia, is due to arrive in Hong Kong on October 5, consigned to the First Group Army, Canton. I am further informed that the shipment will be covered by a through bill of lading to Canton, and that the Cantonese *huchao* covering the shipment is already in the hands of the police authorities of Hong Kong. It is to be presumed that this shipment is not covered by a *huchao* from the Chinese Central Government.

If this information is accurate, it would appear that British and American exporters and exporters of other nationalities whose Governments comply with the regulations of the Chinese Government, in respect to the importation of arms into China, are placed at a disadvantage by the action of the Czechoslovak Government in permitting this shipment.

Accept [etc.] For the Secretary of State:
R. WALTON MOORE

---

[78] Telegram dated August 19, 2 p. m., from the Consul General at Hong Kong; not printed.

846G.113/263

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

No. 193 HONG KONG, September 4, 1935.
[Received October 2.]

SIR: I have the honor to refer to previous reports from this Consulate General regarding the passing of arms and ammunition through Hong Kong into South China, and in particular to my telegram of September 4, 11 a. m.[79] stating that the Hong Kong police have just informed this office that as from October 1, export permits from the countries of origin will be required for all shipments of arms and ammunition passing through the Colony no matter how documented. This new system, instituted by London, is believed to be the result of representations made by the American Government in connection with the freedom with which arms and ammunition have been entering South China contrary to the agreement made with Nanking by all of the arms-manufacturing countries.

Since Belgium and Switzerland appear not to have followed the practice of issuing export permits, the Hong Kong Government plans to require through bills of lading for shipments from these countries destined to South China, in order to establish the transshipment status of their shipments when they arrive in this Colony.

The Hong Kong police feel that the new system will place the onus of establishing the legitimacy of the shipment squarely up to the authorities in the country of origin. In the case of such articles as aeroplanes, the nature of which may be either military or non-military, the manufacturer or his agent must in some way satisfy the local authorities as to their non-military character, should they arrive in Hong Kong without export permits from the country of origin. It has not yet definitely been determined what these requirements will be. The police have been informed that the United States Government has not been issuing export permits for non-military planes, and that the absence of such a permit would tend to show the legitimacy of the shipment from the point of view of the American authorities. It is considered possible that American exporters of commercial aircraft may encounter difficulties in this connection.

Respectfully yours, CHAS. L. HOOVER

[79] Not printed.

846G.113/261

The British Chargé (Osborne) to the Secretary of State

No. 265 WASHINGTON, September 19, 1935.

SIR: I have the honour to refer to your note of the 22nd July last (846G.113/249) regarding the export of arms to China via Hong Kong, and to inform you that arrangements have been made for the new procedure outlined in Sir Ronald Lindsay's note No. 179 of the 1st July to be applied in respect of all consignments of arms shipped from exporting countries on or after the 1st October next. In the case of those countries which have not adopted a licensing system consignments will only be granted "in transit" facilities on production of a contract made between some person or persons in China and some person or persons in the exporting country.

Shipments of arms from Hong Kong to Macao will, equally with shipments destined for China, be subject to the licensing regulations. In particular exports of war material will only be permitted to the Government of that colony or their accredited representatives. The attention of the Governor of Hong Kong has, however, been called to the statement contained in your note under reference and his comments thereon have been called for.

In response to the request contained in your note that the United States Government should be kept informed of shipments of arms from Belgium or Switzerland, His Majesty's Government are prepared to communicate informally to the United States Embassy in London the figures supplied bi-annually by the Government of Hong Kong in respect of Belgium, Switzerland and the United States, and in respect of all countries combined.

I have [etc.] D. G. OSBORNE

846G.113/261

The Secretary of State to the British Chargé (Osborne)

WASHINGTON, September 28, 1935.

SIR: I have the honor to acknowledge the receipt of your note of September 19, 1935, with further reference to the exportation of arms to China via Hong Kong.

The regulations which have now been put into effect by the Government of Hong Kong would appear to be adapted to achieve the end which both of our Governments desire.

I am pleased to note that your Government is prepared to communicate informally to the American Embassy in London certain

information supplied by the Government of Hong Kong in respect to shipments of arms to China through that port.

Accept [etc.] For the Secretary of State:
R. WALTON MOORE

893.113/1623

The Minister in Switzerland (Wilson) to the Secretary of State

No. 4117 BERN, November 6, 1935.
[Received November 15.]

SIR: I have the honor to refer to the Legation's despatch No. 4001 of August 6, 1935 [80] and to previous correspondence concerning the position of the Swiss Government with regard to the embargo on export of arms to China.

The Legation has been informed by Sir George Warner, British Minister here, that he again took up this matter with Federal Councillor Motta a few days ago. Sir George Warner stated to Mr. Motta that since Switzerland had placed an embargo on arms to Italy and Ethiopia,[81] and in the past had done the same thing in the Chaco affair,[82] he did not see why it could not do so with regard to China. Mr. Motta replied that Switzerland had placed the above embargoes due to action taken by the League of Nations, of which it is a member, and that the League had not taken similar action against China and therefore the situation was entirely different. Sir George Warner said that this was entirely true, but that on the other hand it was most important that all of the nations concerned should make a common front on this question. Mr. Motta said that he had already obtained an opinion from the Department of Justice on this matter, in which the latter held that it did not believe that under the Federal Constitution the Federal Council had the right to declare such an embargo without the consent of the Federal Assembly. Nevertheless, he would take it up again with the Department of Justice in order to see if something could be done to take the action desired by the British and other Governments.

Respectfully yours, For the Minister:
STANLEY HAWKS
Secretary of Legation

---

[80] Not printed.

[81] For correspondence concerning the Ethiopian-Italian conflict, see vol. I, pp. 594 ff.

[82] For correspondence concerning the Chaco dispute, see vol. IV, pp. 7 ff.

PROBLEM OF CONTROLLING THE TRAFFIC IN OPIUM AND NARCOTIC DRUGS IN CHINA, INCLUDING MANCHURIA AND JEHOL[83]

893.114 Narcotics/934

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

No. 3178 PEIPING, December 7, 1934.
[Received December 28.]

SIR: I have the honor to refer to the Legation's despatch No. 2860 of July 21, 1934,[84] concerning the question of permitting Chinese officials to search American naval vessels for suspected shipments of contraband narcotics, and to enclose herewith a copy of despatch L. No. 608 of December 3, 1934,[84] from the Consulate General at Hankow concerning a case that developed in connection with the smuggling of morphine by Chinese members of the crew of the U.S.S. *Tutuila*.

It will be observed that morphine was actually discovered by the ship's officers in their search, but that, although Admiral Wainwright[85] and Consul Stanton[86] in accordance with the established policy refused to permit Chinese officials to be present during the process of search, the latter apparently were satisfied with the efforts made and did not seem inclined to press their request that they should personally be in attendance at the investigations.

Respectfully yours, C. E. GAUSS

893.114 Narcotics/1267

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

No. 3708 PEIPING, July 24, 1935.
[Received August 24.]

SIR: I have the honor to enclose a copy of a note received from the Ministry of Foreign Affairs under date of June 29, 1935,[84] transmitting a resolution passed by the Council of the League of Nations[87] regarding the control of traffic in and manufacture of narcotic drugs by foreigners in China. The Ministry requests the cooperation of the American authorities in implementing the provisions of the resolution.

The Legation observes that Article XXXIII of the 1844 Treaty of Wanghia[88] provides that American citizens trading in opium or

---

[83] Continued from *Foreign Relations*, 1934, vol. III, pp. 349–371.
[84] Not printed.
[85] Rear Adm. John D. Wainwright, commanding the Yangtze Patrol, U. S. Asiatic Fleet.
[86] Edwin F. Stanton, Consul at Hankow.
[87] See League of Nations, *Official Journal*, November 1934, pp. 1382 and 1384. See also note from the Secretary of State to the Secretary General of the League of Nations, October 21, 1935, *post*, p. 744.
[88] Signed July 3, 1844, Hunter Miller (ed.), *Treaties and Other International Acts of the United States of America*, vol. 4, p. 559.

other contraband "shall be subject to be dealt with by the Chinese Government, without being entitled to any countenance or protection from that of the United States," and that the United States should take measures to prevent the abuse of its flag by nationals of other countries to screen violations of the laws of the Chinese Empire. Article XIV of the 1858 Treaty of Tientsin [90] incorporated the same provision, and provided further that any vessel flying the American flag that might carry on a clandestine and fraudulent trade "at other ports of China not declared to be legal ([here follow Chinese characters]: more properly translated 'not opened'—EC [91]), or along the coasts thereof", should, with its cargo, be subject to confiscation "to" the Chinese Government. Article II of the 1880 Supplementary Treaty of Peking [92] stipulates that the prohibition of the import of opium, by Chinese subjects into the United States and American citizens into China respectively, should extend to vessels owned or employed by the parties concerned, and that the prohibition "shall be enforced by appropriate legislation on the part of China and the United States", without benefit of the favored-nation clause. Article XVI of the 1903 Commercial Treaty [93] provided for the control of the import and manufacture of morphia by China, and Annex I of the same treaty referred to the fact that American citizens were already forbidden by treaty to "deal in or handle" opium.

These treaty provisions have been supplemented and implemented by the Hague Opium Convention,[94] and by legislation of the American Congress in 1887 and subsequently. Evidently, the existing legal structure would constitute adequate authority for American officials to observe at least the spirit of the resolution mentioned above. In some respects, however, the existing law seems to go even farther than the League Council's resolution would appear to contemplate, unless it is considered that the provisions of the Supplementary Treaty of 1880 constituted a re-definition of the manner in which anti-opium measures were to be applied, and the circumstances would seem to require that an interpretation be given to the aforementioned resolutions before they are made applicable to American citizens and vessels.

As pertinent to this general subject, it may be noted that the provisions of the resolution refer to "illicit" manufacture and traffic. Presumably such manufacture and traffic by Chinese as might have the National Government's sanction would, therefore, not be subject

---

[90] Signed June 18, 1858, Miller, *Treaties*, vol. 7, p. 793.

[91] Oliver Edmund Clubb, Third Secretary of Legation in China.

[92] Signed November 17, 1880, William M. Malloy (ed.), *Treaties, Conventions, etc., Between the United States of America and Other Powers*, 1776–1909 (Washington, Government Printing Office, 1910), vol. I, p. 239.

[93] Signed October 8, 1903, *Foreign Relations*, 1903, p. 91.

[94] International Opium Convention, signed at The Hague, January 23, 1912, *Foreign Relations*, 1912, p. 196.

to legal prosecution. That is, with the control of the trade in opium and other narcotic drugs in the hands of the Chairman of the Military Affairs Commission (Chiang Kai-shek)*, and the legal manufacture and traffic carried on by Chinese, there would not be an effective reciprocity of treatment accorded to Chinese and foreigners who might be engaged in what were essentially the same activities.

The Department's instructions are respectfully requested in order that an appropriate reply may be made to the enclosed note from the Ministry of Foreign Affairs.

Respectfully yours, NELSON TRUSLER JOHNSON

893.114 Narcotics/1268

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

No. 3710 PEIPING, July 26, 1935.
[Received August 24.]

SIR: I have the honor to refer to the Legation's confidential despatch No. 3178 of December 7, 1934, regarding the smuggling of morphine by certain crew-members of the U. S. S. *Tutuila*, and to enclose a copy of a memorandum received from the Ministry of Foreign Affairs under date of July 18, 1935,[95] transmitting the report of the Inspectorate for Opium Suppression of a case of alleged smuggling of morphine in September 1934 by members of the crew of the U. S. S. *Panay*.

It will be observed that the alleged culprits in the case, two Chinese named Ma Yü-ch'ing and Tu Yüan-ch'ing, were arrested by the Chinese authorities and presumably dealt with appropriately. The Chinese officials are reported to have requested that they be permitted to make a search of the U. S. S. *Panay*, but it does not appear that the officers of the vessel were prepared to do more than make a report on the matter to the Commander in Chief of the American Asiatic Fleet.[96] The Foreign Office does not ask that there be any further action taken in this case, but it requests that the Legation "issue instructions to American warships in China that they should uniformly pay serious attention (to this matter), and that if a similar case occurs again in the future, the warship concerned will not be allowed to return to China."

The Legation contemplates taking no action in the matter other than transmitting the Ministry's memorandum to the Hankow Consul

---

*Cf., especially, Nanking's despatch No. L-492 Diplomatic of October 29, 1934; Hankow's despatch No. 126 of June 13, 1935; National Government's mandates of June 5, 1935, abolishing the Commission for Opium-Suppression and appointing Chiang Kai-shek to fill the concurrent post of Superintendent General for Opium Suppression in China, *National Government Gazette*, No. 1760, June 6, 1935. [Footnote in the original; despatches under reference not printed.]

[95] Enclosure not printed.

[96] Admiral Frank Brooks Upham.

General and the Commander in Chief of the Asiatic Fleet for their information.

Respectfully yours, NELSON TRUSLER JOHNSON

500.C 1197/885

Report by the American Representative at the Twentieth Session of the Opium Advisory Committee of the League of Nations (Fuller)[97]

[Extract]

During the discussion on the proposed survey of cooperation, the American representative made the following statement:

"It will be recalled that, in March, 1934, the American Government reserved its opinion as to the expediency and desirability of the proposed commission to inquire into cooperation between Chinese and foreign authorities and into the manufacture in China of opium derivatives pending an expression by the Chinese Government of its views in regard to the proposal to set up such a commission.

"At the Nineteenth (Autumn, 1934) Session of the Opium Advisory Committee, the Chinese representative (as will be seen from League document No. O. C. 1579 (1)), stated that his Government would agree to such a survey of cooperation only, but in a limited and restricted scope, leaving consideration of an investigation of clandestine manufacture in general to the future.

"The agreement of the Chinese Government was submitted orally by the Chinese representative on the Opium Advisory Committee and in a form that lacked precision. I waited to receive a formal, precise, written statement of the Chinese Government's counter proposal before asking for instructions as to the attitude which I should assume when the question comes before the Opium Advisory Committee. The most definite statement yet before the Department of State is that contained in League document No. O. C. 1579 (1)—the report of the Sub-Committee. Nevertheless, I finally asked for instructions and am prepared to state the American view insofar as can be done on the basis of what we have before us.

"It will be recalled that, on several occasions in the Opium Advisory Committee, I have expressed the opinion that the investigation of clandestine manufacture in China—and anywhere else—is essentially a police matter which cannot be handled successfully by an investigating commission. I continue to hold that opinion. The apparent refusal of the Chinese Government to agree to the investigation by a commission of clandestine drug manufacture sounds to me like common sense.

"What is now proposed appears to be 'an investigation on the spot into the conditions and the circumstances attaching to collaboration

---

[97] Submitted to the Secretary of State, July 27, 1935, by Stuart J. Fuller, Assistant Chief, Division of Far Eastern Affairs, who attended the Session of the Committee in an expert and advisory capacity. The portion of the report dealing with China was sent to the American Minister in China in Department's instruction No. 1726, August 5 (not printed).

between the Chinese authorities and the authorities of the countries referred to in Chapter IV of The Hague Convention [98] for the application of provisions of that Chapter.[?] 'The countries referred to in Chapter IV of The Hague Convention' are, in the light of the discussion which took place in the Sub-Committee, understood to be limited to those nations which enjoy extraterritoriality in China.

"The provisions of Chapter IV of The Hague Opium Convention of 1912 deal with the following subjects:

"1. Prevention and suppression of the smuggling of opium and of manufactured narcotic drugs.

"(*a*) into Chinese Territory.

"(*b*) into the settlements, concessions and leased territories.

"(*c*) into far eastern colonies.

"(*d*) out of China into 'foreign colonies and leased territories'.

"2. Promulgation of pharmacy laws for China and extension of the application of those laws to extraterritorial nationals.

"3. Restriction and control of opium smoking and of the trade in opium in settlements, concessions and leased territories *pari passu* with that effected by the Chinese Government.

"4. Prevention of import through foreign post offices in China.

"By its terms, the mandate of the proposed commission would thus be extremely limited in scope. Its scope would be further limited by the conditions obtaining at present in Manchuria and Jehol and in the so-called 'demilitarized area' south of the great wall.

"Our view of the matter is that:

"(1) the scope of the proposed survey is too limited for the accomplishment of any effective result.

"(2) circumstances in Manchuria and Jehol and the legalization by the Chinese Government of the production and sale of opium render the present moment inopportune for undertaking any international survey, even one limited, as is the proposed one, to collaboration in respect of smuggling, of pharmacy laws and of the control of opium smoking.

"In lieu of the proposed survey, I might suggest that the Opium Advisory Committee recommend that the treaty powers individually take up with the Chinese Government the question of improving cooperation to prevent and suppress smuggling and that the Chinese Government make another effort to comply with its treaty obligation to draft a pharmacy law which may be found acceptable."

The Committee took the view that, for the time being, no further steps could well be taken toward the proposed survey.

---

[98] *Foreign Relations*, 1912, p. 196.

893.114 Narcotics/1227 : Telegram

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

WASHINGTON, August 1, 1935—2 p. m.

230. Your despatch No. 3648.[99]

(1) Report by radio date when new system of narcotic drug import certificates will become effective.

(2) Inform all consular offices in China that when new system becomes effective prospective importers who are subject to extraterritorial jurisdiction should continue to transmit through the American Consul the same documentation as heretofore in addition to sending either directly or through the American Consul the Chinese Government's import permit. Consular officers should inform regular importers from the United States.

PHILLIPS

893.114 Narcotics/1240 : Telegram

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

PEIPING, August 9, 1935—5 p. m.
[Received August 9—10 : 12 a. m.]

409. Department's 230, August 1, 2 p. m. Nanking reports that an official of the Department of International Affairs of the Ministry of Foreign Affairs states that the new system of import permits for narcotic drugs became effective June 4, 1935.

JOHNSON

500.C1197/812

The Secretary of State to the Secretary General of the League of Nations (Avenol)[1]

The Secretary of State of the United States of America has the honor to refer to a note from the Secretary General of the League of Nations dated December 14, 1934 (No. CL 211, 1934 XI),[1a] communicating two resolutions adopted by the Advisory Committee on Traffic in Opium and Other Dangerous Drugs at its Eighteenth Session in regard to the clandestine manufacture of narcotic drugs and the illicit traffic in opium and other dangerous drugs in China. The resolutions read, respectively, as follows:

---

[99] Dated June 26, 1935; not printed.

[1] Enclosed in instruction No. 3198, October 21, to the Minister in Switzerland, for transmission to the Secretary General.

[1a] Not printed.

"*Resolution I.*

"The Advisory Committee asks the Council to request Governments having extra-territorial powers in China to take the following measures without delay, unless they have already been adopted:

"(1) To deport from China all their nationals who have been convicted of taking part in the illicit manufacture of drugs in China or in the illicit traffic in such drugs in China. Once deported, these persons should not be allowed to re-enter China.

"(2) Enactment of legislation which will apply in extra-territorial jurisdiction to impose adequate penalties upon their respective nationals who are in future convicted of illicit trafficking in opium or narcotic drugs in China or of complicity in the illicit manufacture in China of narcotic drugs.

"(3) Withdrawal of the protection accorded to vessels engaged in inland water navigation in China and flying the flags of these countries when those vessels are found to be habitually employed in the illicit traffic in opium and dangerous drugs.

"*Resolution II.*

"The Advisory Committee,

"Having examined carefully the information available to it concerning the alarming situation existing in China as regards poppy cultivation and consumption of opium, the illicit traffic in opium and its derivatives, and, above all, as regards the rapid development of clandestine manufacture of morphine and heroin in the Chinese territory:

"Expresses the desire to be informed as soon as possible of the results of the enquiry which was announced a year ago by the Chinese Government and which was intended to serve as a basis for the establishment of a comprehensive plan to prevent illicit traffic in opium and its derivatives and to suppress immediately all illicit manufacture of opium derivatives;

"Expresses the wish that, while awaiting the results of this enquiry, the Chinese Government should take every possible step to combat the illicit traffic in opium and drugs in China and to prevent its territory from becoming a source of supply for traffickers in other countries;

"Recommends that the Council should communicate officially to the Chinese Government and the Governments of the Treaty Powers, through the Secretary-General, the Minutes of the Committee's discussion on the situation in the Far East at its sittings on May 29th and 30th, with a request for the observations of those Governments on the facts disclosed by the discussion and for their replies to the questions put in the course of this discussion."

With respect to Resolution I the Secretary General requests the Government of the United States to inform him of the measures it has already taken or proposes to take on the lines indicated by the Advisory Committee. With respect to Resolution II the Secretary General transmits the minutes of the meetings of the Advisory Committee on May 29 and 30, 1934 (document C.317.M.142.1934.XI—Ex-

tract), and requests the Government of the United States to submit its observations on the facts recorded by the discussion reported in the minutes and to furnish replies to the questions raised during the debate. The Secretary General adds that the two resolutions and other enclosures mentioned in his note have been communicated to the Government of China.

With reference to Resolution I, paragraph (1), the Secretary General is advised that the laws of the United States do not authorize the deportation from China of American citizens who may be convicted of taking part in the illicit manufacture of drugs in China or in the illicit traffic in such drugs in that country. However, American nationals who are convicted in the courts of the United States in China and sentenced to substantial terms of imprisonment are committed to penal institutions in the United States and, in the case of persons convicted of offenses against the narcotic laws, their return to China may, as it already has been in at least one instance, be prevented. Moreover, Section 2 of the Act of Congress approved January 19, 1929,[2] providing for the establishment of narcotic farms in the United States for the treatment of drug addicts authorizes the commitment to such institutions of persons convicted in the consular courts of the United States—including those in China—who are addicted to the use of habit-forming drugs. Consideration is now being given to the question of the practical necessity or desirability of recommending the amendment of the laws of the United States so as to authorize the American authorities in China to deport from and prohibit the return to China of American nationals convicted of participating in the illicit traffic in narcotic drugs in China.

Referring to the second paragraph of Resolution I the Secretary General is advised that certain laws of the United States penalizing the illicit traffic in opium and other drugs are already applicable to American citizens in China. The act of Congress approved February 23, 1887, as amended (24 Stat. 409; 34 Stat. 814), enacted to carry into effect the provisions of the Treaty as to Commercial Intercourse and Judicial Procedure, concluded between the United States and China on November 17, 1880, provides:

"No citizen of the United States shall import opium into any of the open ports of China, nor transport the same from one open port to any other open port, or buy or sell opium in any of such open ports of China, nor shall any vessel owned by citizens of the United States, or any vessel, whether foreign or otherwise, employed by any citizen of the United States, or owned by any citizen of the United States, either in whole or in part, and employed by persons not citizens of the United States, take or carry opium into any of such open ports of China, or transport the same from one open port to any other open

[2] 45 Stat. 1085.

port, or be engaged in any traffic therein between or in such open ports or any of them. Citizens of the United States offending against the provisions of this section shall be deemed guilty of a misdemeanor, and upon conviction thereof, shall be punished by a fine not exceeding $500 nor less than $50, or by both such punishments, in the discretion of the court. The consular courts of the United States in China, concurrently with any district court of the United States in the district in which any offender may be found, shall have jurisdiction to hear, try, and determine all cases arising under the foregoing provisions of this section, subject to the general regulations provided by law. Every package of opium or package containing opium, either in whole or in part, brought, taken, or transported, trafficked, or dealt in contrary to the provisions of this section, shall be forfeited to the United States, for the benefit of China; and such forfeiture, and the declaration and consequences thereof, shall be made, had, determined, and executed by the proper authorities of the United States exercising judicial powers within China. (Feb. 23, 1887, c. 210, § 3, 24 Stat. 409; Title 21, Sec. 193, U. S. Code.)"

The Act of Congress approved March 3, 1915 (38 Stat. 817) was enacted to regulate and control the practice of pharmacy and sale of poisons in American consular districts in China. Sections 6, 8 and 11 of that Act read, respectively, as follows:

"Section 6. It shall be unlawful for any person, firm, or corporation whose permanent allegiance is due to the United States, either personally or by servant or agent or as the servant or agent of any other person or of any firm or corporation, to sell, furnish, or give away any cocaine, salts of cocaine, or preparation containing cocaine or salts of cocaine, or morphine or preparation containing morphine or salts of morphine, or any opium or preparation containing opium, or any chloral hydrate or preparation containing chloral hydrate, except upon the original written order or prescription of a recognized and reputable practitioner of medicine, dentistry, or veterinary medicine, which order or prescription shall be dated and shall contain the name of the person for whom prescribed, or, if ordered by a practitioner of veterinary medicine, shall state the kind of animal for which ordered and shall be signed by the person giving the order or prescription. Such order or prescription shall be, for a period of three years, retained on file by the person, firm, or corporation who compounds or dispenses the article ordered or prescribed, and it shall not be compounded or dispensed after the first time except upon the written order of the original prescriber. (Mar. 3, 1915, c. 74, § 6, 38 Stat. 819; Title 21, Sec. 207 U. S. Code.)"

"Section 8. No person, firm, or corporation whose permanent allegiance is due to the United States seeking to procure in the consular districts of the United States in China any substance the sale of which is regulated by the provisions of this chapter shall make any fraudulent representations so as to evade or defeat the restrictions herein imposed. (Mar. 3, 1915, c. 74, § 8, 38 Stat. 821; Title 21, Sec. 213, U. S. Code.)"

"Section 11. Any person, firm, or corporation whose permanent allegiance is due to the United States, violating any of the provisions

of this chapter shall be deemed guilty of a misdemeanor, and upon conviction thereof shall be punished by a fine of not less than $50 and not more than $100 or by imprisonment for not less than one month and not more than sixty days, or by both such fine and imprisonment, in the discretion of the court, and if the offense be continuing in its character, each week or part of a week during which it continues shall constitute a separate and distinct offense. And it shall be the duty of the consular and judicial officers of the United States in China to enforce the provisions of this chapter. (Mar. 3, 1915, c. 74, § 11, 38 Stat. 821; Title 21, Sec. 212, U. S. Code.)"

Section 2 of the act just cited provides that applicants for a license to practice pharmacy "shall submit evidence sufficient to show to the satisfaction of said Consul (American Consul) that he is of good moral character and not addicted to the use of . . .[3] narcotic drugs, so as to render him unfit to practice pharmacy".

Section 4 of the same act provides for the revocation of a license to practice pharmacy which was obtained by any person found to "be addicted to any narcotic or stimulant . . .[3] in such manner and to such extent as to render it expedient that in the interest of the public his license be cancelled".

Section 6 of the Narcotic Drugs Import and Export Act, as amended, provides that:

"(*a*) It shall be unlawful for any person subject to the jurisdiction of the United States Government to export or cause to be exported from the United States, or from territory under its control or jurisdiction, or from countries in which the United States exercises extraterritorial jurisdiction, any narcotic drug to any other country. Narcotic drugs (except smoking opium and opium prepared for smoking, the exportation of which is absolutely prohibited) may be exported to a country only which has ratified and become a party to the convention and final protocol between the United States Government and other powers for the suppression of the abuses of opium and other drugs, commonly known as the International Opium Convention of 1912, and then only if (1) such country has instituted and maintains, in conformity with that convention, a system, which the board deems adequate, of permits or licenses for the control of imports of such narcotic drugs; (2) the narcotic drug is consigned to an authorized permittee; and (3) there is furnished to the board proof deemed adequate by it, that the narcotic drug is to be applied exclusively to medical and legitimate uses within the country to which exported, that it will not be reexported from such country, and that there is an actual shortage of and a demand for the narcotic drug for medical and legitimate uses within such country.

"(*b*) The Secretary of State shall request all foreign governments to communicate through the diplomatic channels copies of the laws and regulations promulgated in their respective countries which pro-

[3] Omission indicated in the original communication.

hibit or regulate the importation and shipment in transit of any narcotic drug and, when received, advise the board thereof.

"(*c*) The board shall make and publish all proper regulations to carry into effect the authority vested in it by this subchapter. (Feb. 9, 1909, c. 100, § 6; Jan. 17, 1914, c. 9, 38 Stat. 275; May 26, 1922, c. 202, § 2, 42 Stat. 597; June 14, 1930, c. 488, § 3, 46 Stat. 586; Title 21, Sec. 182 U. S. C.)"

Section 4 of the act cited penalizes the possession of smoking opium and appears to be applicable to "all persons subject to the jurisdiction of the United States", including presumably American nationals in extraterritorial countries, including China. The section reads as follows:

"Any person subject to the jurisdiction of the United States who shall, either as principal or as accessory, receive or have in his possession, or conceal on board of or transport on any foreign or domestic vessel or other water craft or railroad car or other vehicle destined to or bound from the United States or any possession thereof, any smoking opium or opium prepared for smoking, or who, having knowledge of the presence in or on any such vessel, water craft, or vehicle of such article, shall not report the same to the principal officer thereof, shall be subject to the penalty provided in section 174 of this title. Whenever on trial for violation of this section the defendant is shown to have or to have had possession of such opium, such possession shall be deemed sufficient evidence to authorize conviction, unless the defendant shall explain the possession to the satisfaction of the jury. (Feb. 9, 1909, c. 100 § 4; Jan. 17, 1914, c. 9, 38 Stat. 275; Title 21, Sec. 178, U. S. C.)"

It is possible that other provisions of the laws of the United States relating to narcotic drugs might be held to be applicable to American citizens in China, and consideration is being given to the question whether it is necessary or desirable to make more explicit provision for the application to American nationals in China of the general laws of the United States designed to prohibit the illicit traffic in opium and other narcotic drugs.

With respect to the third paragraph of Resolution I, the Secretary General is informed that no vessel flying the American flag and engaged in inland water navigation in China has ever been found to be "habitually employed in the illicit traffic in opium or other dangerous drugs". In the event that any vessel enjoying American protection in China should engage in such illegal activities, this Government would, upon receipt of satisfactory evidence of such activities, withdraw its protection from such vessel and would inform the appropriate Chinese authorities that the facilities granted to such vessel on the basis of its former American documentation need no longer be granted.

With regard to Resolution II, the Department, pending the receipt of further information concerning the outcome of measures taken

by the Chinese Government since April 1934, has nothing to add to the facts brought out in the discussion which took place at the Opium Advisory Committee's meetings on May 29 and 30, 1934; but submits the following observations:

From the data hitherto available, it is estimated that some ninety percent of the world's production of opium is grown in China. This represents a practically unlimited supply of raw material for the manufacture of morphine, heroin and other dangerous drugs. It is, therefore, felt that the Chinese Government rests under a heavy responsibility to the other nations of the world not only drastically to reduce this vast production of opium, but also to ensure meanwhile that the output of raw opium from its poppy fields is not diverted from medical and scientific use to supply the demands of addiction in China or in the rest of the world. It is hoped that the measures taken by the Chinese Government since the spring of 1934 may speedily result in effective and material reduction in the large amount of raw opium produced in China and in the production and consumption in China of prepared opium. So that the other nations may be kept informed of the progress which the Chinese Government makes in the effort to destroy the menace which this huge production of opium constitutes for the rest of the world, it is hoped that the Chinese Government will publish annually detailed statistics, by provinces, of the areas planted to the poppy, the production of raw opium, the movement of opium both raw and prepared, and the quantities of raw opium used for producing opium prepared for smoking, as well as detailed figures showing stocks at the end of each year and the revenue obtained from the traffic.

Such action by the world's largest producer of raw opium could not but be regarded as a distinct step forward in concerted effort to limit and reduce the world production of the raw materials from which narcotic drugs are made, a limitation which the Chinese representatives have frequently, in the past, characterized as essential to an effective solution of the narcotic drug problem.

It is also hoped that the Chinese Government will take steps to render more effective its prohibition of the importation into China of Persian and other foreign opium and that, as a measure of cooperation, the British Government will continue to supply through the Secretary General of the League of Nations to the parties to the Narcotics Limitation Convention of 1931 [6] details such as it has previously furnished in regard to the movement of opium from the Persian Gulf.

It is hoped that the Chinese Government will submit and that the Secretary General will transmit to all parties to the Narcotics Limi-

[6] *Foreign Relations*, 1931, vol. I, p. 675.

tation Convention of 1931 individual reports, under Article 23 of that Convention, of all of the important cases of illicit traffic and of clandestine manufacture, in order to show more completely and definitely the trend of the illicit traffic in China, the measures which are being taken to suppress that traffic, and the difficulties encountered in enforcing that suppression.

It is also hoped that the authorities of the International Settlement at Shanghai will continue to send in their valuable reports on individual cases of illicit traffic discovered in that International Settlement and that the Secretary General will circulate these to Governments in the manner prescribed by the Narcotics Limitation Convention of 1931 for the exchange between Governments of reports of this character. It is hoped that the Governments of nations which have Concessions in China will also continue to submit similar reports and that the Secretary General will similarly circulate them.

To provide a barometer of clandestine manufacture of heroin, it is hoped that the Chinese Government will publish statistics of the import into China of acid acetic anhydride showing the quantities of this substance imported at the various ports. It is also hoped that similar statistics will be published showing imports into the Kwantung Leased Territory and into Manchuria and Jehol.

The Department awaits the receipt of the laws and regulations promulgated to give effect in China to the Narcotics Limitation Convention of 1931 which the Chinese Government is understood to have submitted for transmission by the Secretary General to all governments parties to that Convention, in accordance with Article 21 thereof.

WASHINGTON, October 21, 1935.

893.114 Narcotics/1325

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

No. 20 WASHINGTON, October 21, 1935.

SIR: Reference is made to your despatch No. 3708 of July 24, 1935, transmitting a copy of a note from the Ministry of Foreign Affairs [7] and its enclosure, a resolution adopted by the Advisory Committee on Traffic in Opium and Other Dangerous Drugs,[8] recommending that Governments having extraterritorial jurisdiction in China impose adequate penalties upon their nationals for participation in the illicit traffic in and manufacture of narcotic drugs in China.

The Department had previously received a circular letter from

[7] Note not printed.
[8] For text of resolution, see *supra*. Resolution I.

the Secretary General of the League of Nations [9] transmitting a copy of the Advisory Committee's resolution under reference and another resolution adopted by the Advisory Committee on the subject of illicit narcotic activities in China,[10] which has also been transmitted to the Chinese Government by the Secretary General of the League of Nations, but to which no reference is made in the note addressed to you by the Ministry of Foreign Affairs. There is transmitted herewith a copy of that circular letter, together with a copy of the Department's reply.[11]

It is suggested that that part of the reply which refers to resolution No. 1 be furnished the Ministry of Foreign Affairs in reply to its note of June 29, 1935. The Department deems it inadvisable to enter upon a discussion as to the self-executing character of the treaty provisions to which you refer and suggests that no reference to those provisions be made in your note to the Foreign Office.

You will observe that the Department's note to the Secretary General does not adopt the view expressed by the United States District Attorney at Shanghai in his letter of October 8, 1934, a copy of which accompanied your despatch No. 3048 of October 18, 1934,[12] on the question of the extent to which the narcotic laws of the United States are applicable to American nationals in China. While the Department is inclined to doubt the application to China of some of the provisions of law which the District Attorney apparently considers applicable, the Department refrains from expressing a definite opinion at this time pending further study to determine whether the enactment of any additional legislation expressly applicable to American nationals in China is necessary and desirable for the fulfillment of this Government's obligations under its treaties.

As the Department's reply to the Secretary General's circular letter will probably be published by the League Secretariat *in extenso*,[13] you may consider it expedient also to transmit to the Ministry of Foreign Affairs the portion of that reply which sets forth the observations called for by resolution No. II. The Department perceives no objection to your doing so and leaves the decision to your discretion.

Very truly yours, For the Secretary of State:
WILLIAM PHILLIPS

---

[9] Not printed.
[10] For texts of resolutions, see *supra*.
[11] *Supra*.
[12] Neither printed.
[13] Published in summary; League of Nations, *Advisory Committee on Traffic in Opium and Other Dangerous Drugs, Minutes of the 21st Session, May 18–June 5, 1936* (1936 XI 17), p. 145.

893.114 Narcotics/1394 : Telegram

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

WASHINGTON, December 5, 1935—4 p. m.

69. Your despatch No. 77, November 6,[14] and previous, in regard Chinese drug import permits. Please inform Chinese Government that no certificate for export of narcotic drugs to China will be issued except against import permit issued by Chinese Public Health Administration. HULL

EFFORTS FOR THE CONSIDERATION OF AMERICAN CLAIMS OUTSTANDING AGAINST CHINA[15]

493.11/1924

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

No. 3484 PEIPING, April 1, 1935.
[Received May 4.]

SIR: I have the honor to refer to the Legation's despatch No. 3032 of October 12, 1934,[16] in regard to the proposed Sino-American claims commission, and in that connection to forward herewith copy of despatch No. 660 of March 19, 1935, from the Counselor of Legation, Nanking,[14] in regard to a conversation which he had on this subject with Mr. T. K. Tseng, Secretary-General of the Commission for Readjustment of Domestic and Foreign Loans.

It will be observed that Mr. Tseng stated that, so far as he was aware, the Government had as yet devised no method for dealing with its foreign obligations in general, and that General Chiang Kai-shek had expressed in November, 1934, great displeasure that no progress had been made in this direction. Mr. Peck points out that Mr. Tseng, being a partisan of Mr. T. V. Soong,[17] is consequently not unwilling that the United States should be encouraged to press for attention to American claims, thus causing embarrassment to the present Minister of Finance.

I also enclose copy of a memorandum of conversation between a Second Secretary of the British Legation and a member of my staff, together with the relevant extract of a memorandum handed by the British Counselor of Legation to the Foreign Office on March 11, 1935,[18] regarding the outstanding non-contractual claims of British

---

[14] Not printed.
[15] Continued from *Foreign Relations*, 1934, vol. III, pp. 542–562.
[16] Not printed; for enclosure to despatch, see *Foreign Relations*, 1934, vol. III, p. 558.
[17] Former Chinese Minister of Finance; executive member, National Economic Council.
[18] Neither printed.

subjects against the Chinese Government. As this memorandum indicates, the recent action of the British Legation in presenting to the Foreign Office a memorandum similar to that presented by this Legation on June 19, 1934, has met with little success. Dr. Hsu Mo, the Vice Minister for Foreign Affairs, to whom the memorandum was presented, pointed out that the present was scarcely an opportune time, in view of the difficult financial situation in which the Chinese Government found itself, to present such a memorandum. The Counselor pointed out that while this was appreciated His Majesty's Government was desirous at least of having the claims assessed. It would appear, however, that this desire will not be fulfilled, and I gather that the British Legation is not at all sanguine as to the possibility of any progress being made as a result of their recent action.

As of possible interest to the Department I also enclose copy of a memorandum of a conversation between a Second Secretary of the British Legation and a member of my staff, dated February 27, 1935,[21] which gives some of the background of the presentation of the British Legation's memorandum.

Respectfully yours, NELSON TRUSLER JOHNSON

493.11/1925

The American Minister in China (Johnson) to the Chinese Acting Minister for Foreign Affairs (Wang)[22]

The American Legation has the honor to refer to its memorandum addressed to the Ministry of Foreign Affairs under date of June 19, 1934, forwarding a list of claims of American creditors against the Chinese Government, and in that connection to enclose a list of twenty-nine additional claims.[21] As was pointed out in the Legation's memorandum referred to above, the list submitted at that time could not be considered as complete and was submitted without prejudice to any other American claims. Therefore, as additional claims are discovered which appear to merit consideration, such as those submitted with this memorandum, they will be forwarded for careful consideration in connection with the matter of the establishment of a Sino-American claims commission.

In this connection, the American Legation would appreciate an expression of opinion from the Ministry of Foreign Affairs as to what progress has been made towards the establishment of a Sino-Amer-

---

[21] Not printed.

[22] Copy transmitted to the Department by the Minister in China in his despatch No. 3494, April 9; received May 4.

ican claims commission and a solution of the entirely unsatisfactory situation now existing in regard to the settlement of claims of American creditors against the Chinese Government.

N[ELSON] T. J[OHNSON]

PEIPING, April 8, 1935.

493.11/1836

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

No. 1636 WASHINGTON, April 22, 1935.

SIR: Reference is made to the Department's instruction No. 1291 of February 8, 1934,[23] "in regard to the prosecution of claims for losses resulting from the looting of goods which are in the hands of Chinese agents but which are claimed to belong to American nationals." In the instruction it will be observed that the Legation was informed that the question of the ownership of this property as affecting the status of the claims was being studied and that a brief was expected from the Standard Oil Company in regard to the matter.

That brief has now been received and further consideration of the question presented in the light of the brief and Chinese cases submitted with it confirms the Department in the position that it has consistently taken in regard to this matter, namely, that the title to the goods all along remained in the Company.

There seems to be no practical reason why the Department's telegraphic instructions of April 19, 1933,[24] in reply to the Legation's No. 333 of April 15,[25] should be changed at this time.

Very truly yours, For the Secretary of State:
R. WALTON MOORE

493.11/1932

Memorandum by the Minister in China (Johnson)[26]

NANKING, May 22, 1935.

This morning by arrangement I called upon Dr. Hsu Mo, Vice Minister for Foreign Affairs,[27] and stated that I wanted to inquire what prospect there was of some satisfactory arrangement regarding an investigation and settlement of our claims. I pointed out that we had

---

[23] *Foreign Relations*, 1934, vol. III, p. 543.
[24] *Ibid.*, 1933, vol. III, p. 635.
[25] See footnote 96, *ibid.*
[26] Copy transmitted to the Department by the Minister in China in his unnumbered despatch dated May 24; received June 15.
[27] Mr. Laurence E. Salisbury, Second Secretary of Legation at Peiping, and Mr. George Atcheson, Jr., Second Secretary of Legation at Nanking, were also present.

submitted a long list of claims last year and had supplemented this list by another list in April of this year. I stated that at a conversation which I had had with Dr. Wang Ching-wei,[28] Acting Minister for Foreign Affairs, in October of last year the latter had stated that the Ministry of Foreign Affairs was making an investigation of these claims, writing to the several provincial governments and to the several Ministries and collecting all available data for the purpose of examining the claims and arranging them into categories. I stated that we had waited very patiently for some results on this investigation but that thus far we had heard very little. I pointed out once more that we had hoped by an arrangement such as we had proposed to put claims once for all into a category of cases that no longer needed to be constantly worried about in intercourse between the Legation and the Foreign Office. I stated that the continued existence of these claims as unfinished business hung like a cloud over our intercourse; that it was a source of trouble to the Ministry of Foreign Affairs and an embarrassment to us as, in the state of uncertainty now existing, American interests were constantly besetting us with requests for some settlement. I pointed out that this situation tended to becloud China's credit and make it difficult to obtain progress along any line of business.

Dr. Hsu Mo stated that he understood this and he felt that he understood and was sympathetic with the American point of view. He said that the Foreign Office was still engaged in making a survey of the claims listed by us and they had found that generally the cases represented claims that the Chinese Government had no intention of repudiating. There were other claims, however, for which they could find no evidence and for which they would have to ask us for evidence in the form of contracts, et cetera. There were still other claims arising out of situations responsibility for which the Chinese Government must disclaim. No government could acknowledge responsibility in such matters. Dr. Hsu Mo admitted that perhaps the American Government thought such claims well founded and there therefore existed a dispute which naturally should be the subject of arbitration, but the Chinese Government was unwilling even to admit such matters to arbitration because of the principles involved.

I stated that it seemed to me that the Chinese Government could lose nothing by arbitrating these questions where principles were involved; that presumably any neutral commission would decide such matters in accordance with well recognized principles and that such decisions would tend to confirm the Chinese Government's position if it was well founded, rather than disturb it. I pointed out that the American Government was not anxious to embarrass the Chinese Government by pressing for payment of claims when it knew that money

[28] Also known as Wang Chao-ming.

was difficult to find, but that nevertheless it seemed to us that it would be vastly beneficial to the Chinese Government if this whole question could be relegated to the jurisdiction of some competent machinery that would take it once and for all out of the realm of diplomatic dispute. I again expressed the hope that we would soon know what the Chinese Government's decision would be in this matter.

Dr. Hsu Mo stated that they were still studying the question and still pursuing their inquiries in regard to the numerous claims mentioned in our list.

NELSON TRUSLER JOHNSON

893.51 Con. Ob. Andersen, Meyer and Co./23

The American Minister in China (Johnson) to the Chinese Acting Minister for Foreign Affairs (Wang)[29]

No. 916 PEIPING, June 13, 1935.

EXCELLENCY: I have the honor to inform Your Excellency that on October 31, 1933, the Ministry of Railways acting for and on behalf of the Peiping-Hankow Railway signed an agreement with certain American creditors of that railway, namely Messrs. Andersen, Meyer & Co., Ltd., the General American Car Company and the Baldwin Locomotive Works, for the liquidation of debts owed these companies for materials supplied to the railway. The agreement provided for a minimum monthly payment by the railway to the above mentioned creditors of silver $50,000 per month. An additional proviso, however, contained in paragraph three of the agreement, stated that the minimum payment of $50,000 monthly was based on the financial condition of the railway at the time the agreement was signed and that as and when there should be an improvement in the financial condition of the road the monthly payment would be increased.

Since that time there appears to have been a marked improvement in the financial condition of the railway. The *Railway Gazette*, which is published by the Ministry of Railways, in its editions No. 1127 of March 30, 1935, No. 1134 of April 8, 1935, No. 1135 of April 9, 1935, No. 1139 of April 13, 1935, No. 1146 of April 22, 1935, No. 1153 of April 30, 1935, No. 1156 of May 3, 1935, No. 1157 of May 4, 1935, No. 1169 of May 18, 1935, and No. 1175 of May 25, 1935, gives ample evidence of the very considerable improvement in the earnings of this road. The increase in income appears to have averaged about $200,000 a week for the last three months. The Legation, however, has been informed that, in spite of the improved condition in the earning power of the Peiping-Hankow Railway, the Minister of Railways, when

[29] Copy transmitted to the Department by the Minister in China in his despatch No. 3740, August 13; received September 7.

the matter was discussed with him recently, not only declined to consider the question of an increase in the monthly payment to the American creditors, but gave no assurance that the provision of paragraph three would be complied with in the future. The Legation has now been advised that the Ministry of Railways has placed an order for some twenty new locomotives for the Peiping-Hankow Railway at a cost of approximately $1,500,000, which it is understood are to be paid for in cash. That the railway is at this time undertaking new commitments involving large disbursements is surprising in view of the agreements above-mentioned. I therefore urge that Your Excellency impress upon the Minister of Railways the necessity of fulfilling his obligations to the American creditors of the Peiping-Hankow Railway as set forth in paragraph three of the above-mentioned agreement.

I avail myself [etc.] NELSON TRUSLER JOHNSON

893.50/160a : Telegram

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

WASHINGTON, June 29, 1935—2 p. m.

192. Department refers to reports received from the Legation and from other sources including the press to the effect that the Japanese have concluded or are endeavoring to conclude with the Chinese settlements of various outstanding financial obligations as well as agreements providing for material extension of Japanese economic interests in China.

In view of the foregoing and particularly of recent developments in North China, Department offers, for the guidance and possible assistance of the Legation, suggestions and observations as follows:

Department desires that Legation, as in the past, give intensive and continuing study to the broad subject of the effects on American rights and interests of recent developments in Sino-Japanese relations and that the Legation, in addition to forwarding current reports in regard to particular phases of the situation, submit to the Department from time to time comprehensive analyses of the situation as a whole together with the views and comments of the Legation.

Department desires to emphasize the importance which it attaches to the maintenance on behalf of American interests of effective equality of commercial opportunity and in connection therewith requests that special study be given to the question whether, as a result of recent developments, Japanese interests have obtained or are likely to obtain special or exceptional economic privileges which will not be available to American and other foreign interests.

In the event that Japanese interests are accorded, either in theory or in practice, preferential treatment, the Legation should promptly report the situation to the Department.

HULL

893.51 Contractual Obligations/33a : Telegram

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

WASHINGTON, July 12, 1935—5 p. m.

205. Reference that portion of Department's 192, June 29, 2 p. m., relating to reported settlement of outstanding financial obligations of the Chinese Government to Japanese interests.

Department assumes that Legation has already investigated and given thought to the situation thus presented, with particular reference to possible effects on claims of American creditors, and that when practicable a report will be submitted to the Department.

In view of the probability that, due to the limited amount of funds considered by the Chinese Government as available for the liquidation of its debts to foreign creditors, each successive settlement of Japanese claims lessens the chances of other creditors obtaining early favorable adjustments and particularly cash payments, Department is of the opinion that American claimants, with the active assistance of the Legation, should endeavor at this time to effect satisfactory settlements of their outstanding accounts with the Chinese Government and agencies thereof.

HULL

893.51 Contractual Obligations/34 : Telegram

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

PEIPING, July 19, 1935—3 p. m.
[Received July 19—7 : 20 a. m.]

369. Department's 205, July 12, 5 p. m. Legation has been attempting to keep itself informed regarding reported settlement of outstanding financial obligations of the Chinese Government to Japanese interests. Information in this regard has been conflicting.

With reference to final paragraph Department's telegram is it Department's belief that Legation should abandon discussions of American claims as a whole along lines hitherto followed and advise American claimants that they should individually reconsider their claims and approach Chinese Government with the active assistance of the Legation for settlement on best terms available rather than await some future settlement either on the basis of findings of a claims commission or on the basis of continued general diplomatic pressure?

JOHNSON

893.51 Con. Ob. Andersen, Meyer and Co./23

The Chinese Acting Minister for Foreign Affairs (Wang) to the American Minister in China (Johnson) [30]

SIR: I have the honor to acknowledge the receipt of your formal note of June 13, 1935, concerning the agreement signed on October 30, 1933, between the Ministry of Railways acting for and on behalf of the Peiping-Hankow Railway Administration and Messrs. Andersen, Meyer & Co., Ltd., the General American Car Company and the Baldwin Locomotive Works, which provided for a monthly payment of $50,000 on the debts. You stated that, however, paragraph three of the agreement provides: "as and when there should be an improvement in the financial condition of the road the monthly payment would be increased." You requested that I impress upon those concerned (the necessity) of fulfilling the obligations as set forth in paragraph three of the agreement.

This Ministry at once addressed a despatch to the Ministry of Railways requesting it to consider the matter and take action. A reply has now been received, stating:

"We have the honor to observe that since the agreement for adjustment of material debts between the Peiping–Hankow Railway and Messrs. Andersen, Meyer & Company, Ltd., and other American firms was signed the Railway has duly fulfilled the agreement without fail

"The provisions contained in paragraph three of the agreement refer to the general financial condition of the Railway. In order to improve the financial condition, it is necessary to devise means to pay the principal and interest of loans, and other debts similar in nature to those owed to American firms should also be adjusted. Furthermore, for the purpose of developing the business and increasing the income, it is even more necessary to consider purchases of equipment required. The twenty locomotives recently purchased by bids by the Peiping–Hankow Railway are necessary additional equipment which should be purchased. Thus the income will be increased in the future and the various creditors will be benefited.

"The opinion of the American Minister appears to be merely that the increased income of the Peiping–Hankow Railway should first be used to increase payment of material debts owned to American firms, and that, on the contrary, other debts and all legitimate needs of the Railway should be disregarded. This really confuses the increase of income with the improvement of financial condition as the same, and appears to be a misinterpretation of the original purport of paragraph three of the agreement.

"In short, this Ministry implicitly observes the signed agreement mentioned above. At the present time there has been no stabilized development nor improvement of the financial condition of the said

[30] Copy transmitted to the Department by the Minister in China in his despatch No. 3740, August 13; received September 7.

Railway. Wait until the suitable time comes, when of course negotiations will certainly be held with the creditors and action taken."

I have the honor to make this reply for your information.

WANG CHIAO-MING

[NANKING,] July 26, 1935.

893.51/6022

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

No. 1721 WASHINGTON, July 26, 1935.

SIR: The Department refers to previous correspondence in regard to the service of the Hukuang Railways Loan of 1911 [31] and in connection therewith encloses, for your information and consideration, a copy of a letter under date July 18, 1935, together with enclosures,[32] received by the Department from the American Group of the China Consortium.[33]

In its consideration of the correspondence attached hereto, the Department has noted with interest the statement of the Ministry of Finance to the effect that, except for the payment by appropriation from the Salt Revenue of one yearly installment of interest due on Hukuang bonds, the Ministry of Railways will have to make their "own arrangements for the payment of the accumulated arrears of principal and interest"; the statement of the Ministry of Railways that "on account of the extraordinary shortage of funds it is really impossible to arrange any payment for the present"; and the statement made to the National City Bank by the Hong Kong and Shanghai Banking Corporation to the effect that, in view of the fact that four strong protests were lodged during 1935 in regard to defaults in the service of the Hukuang Loan, the lodging of further protests at this time would be inadvisable.

The Department has also noted with particular interest the copy of the letter of May 30, 1935, addressed by the Shanghai branch of the National City Bank to its New York office, wherein it is reported (*a*) that, according to Mr. C. J. Carroll,[34] Governor Forbes [35] informed General Chiang Kai-shek to the effect that China cannot expect the United States even to consider the granting of further assistance until Chinese loans now in default are placed in good standing, and (*b*)

---

[31] For signing of the loan agreement by a four-power banking group (American, British, French, German), May 20, 1911, see *Foreign Relations*, 1912, p. 87.

[32] None printed.

[33] For text of the China Consortium Agreement, October 15, 1920, see *Foreign Relations*, 1920, vol. I, p. 576.

[34] Vice chairman of the American Economic Mission.

[35] Chairman of the American Economic Mission.

that, according to the same source, General Chiang Kai-shek stated his intention "shortly to appoint a foreign executive committee to run the railroads of China".

The Department would appreciate the receipt of any information which the Legation is in position to offer in regard to the foregoing, with particular reference to the proposal that there be created a foreign executive committee "to run the railroads of China".

Very truly yours, WILLIAM PHILLIPS

893.51 Contractual Obligations/34 : Telegram

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

WASHINGTON, July 29, 1935—6 p. m.

226. Your 369, July 19, 3 p. m., and previous in regard to proposed Sino-American claims commission. In view of the existence during the past year of an unusually disturbed and complicated financial situation in China and of the widespread expression of opinion in China that among the factors contributing to the situation under reference should be included the silver policy of the United States, the Department has refrained from suggesting that the Legation press strongly for the prompt creation of a Sino-American claims commission. However, as the Department has in no way modified its views in regard to the desirability of following the procedure suggested, or one similar thereto, and as the near future would seem to hold forth little hope of a more auspicious period within which to revive the subject, the Department, having noted with approval the Legation's action as reported in its despatch of May 24,[36] from Nanking, desires that the Legation continue to urge strongly the creation of a joint claims commission. The Department suggests that in approaching the Chinese Government the Legation refer to the situation outlined in its telegram No. 192 of April 24, 1934, 3 p. m.,[37] and to the opinion of the Department that the Chinese Government has now had ample time to acquaint itself with the nature of the American claims under consideration.

In addition to the foregoing, the Legation should, as previously requested, endeavor to effect settlement of individual American claims. Decision with regard to possible reductions in the amount of such claims rests of course with the concerned claimants. The Legation, however, might, when appropriate opportunity offers, point out to American claimants that in certain instances unpaid accounts of long standing against the Chinese Government have been settled on a mutually satisfactory basis due to voluntary agreement on the part of

---

[36] Not printed, but see memorandum by the Minister in China, p. 755.

[37] *Foreign Relations*, 1934, vol. III, p. 553.

the claimant to substitute for compound interest at high rates simple interest at normal rates, the principal remaining unaltered. The Legation might also point out its complete willingness to continue its endeavors to cause the Chinese Government to pay American claims in full but that the apparent preparedness of numerous creditors, particularly of other nationalities, to compromise with the Chinese Government naturally complicates the situation and that American claimants may therefore wish to reconsider their position from a practical as well as a legalistic point of view. Irrespective of the decision reached by American claimants it is suggested that by the use of all appropriate and practicable means, the Legation make special effort to cause the Chinese Government to liquidate its outstanding accounts with American citizens.

PHILLIPS

893.51/6037 : Telegram

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

PEIPING, August 31, 1935—9 a. m.
[Received 7:55 p. m.]

448. Reference Department's instruction No. 488 [*1688*], June 25, 1935 [38] and previous correspondence regarding the Hukuang loan. The British Embassy has suggested transmission to Chinese Government of a joint memorandum as follows:

"With reference to the memorandum from His Excellency the Minister for Foreign Affairs dated the 19th October 1934 [38] and to previous correspondence relating to default in the service of the Hukuang Railways loan of 1911, the undersigned representatives of France, Great Britain and the United States of America have the honor once more to invite attention to the great and ever increasing indebtedness of the Chinese Government under the loan agreement. A further default took place on the 15th June last no funds having been provided for payment of coupon 48 and the installment of principal which fell due on that date. Payments which have been made only up to and including coupon 37 of the British, French and American issues (due 15th December 1929) and coupon 36 of the German issue (due 15th June 1929) are 11 coupons in arrears on the British, French and American issues and 12 coupons in arrears on the German issue. The total amount of interest and principal in default is now approximately £3,000,000.

In their joint memorandum of the 10th August 1934 [38] the undersigned representatives stated that the complete disregard by the Chinese Government of its obligations under the agreement of 1911 to have the service of this loan made a charge, as prescribed and provided in the agreement, upon customs revenue utilizing increments

[38] Not printed.

of that revenue for other purposes must necessarily create most deplorable impressions. During the year which has passed the customs revenue have been further pledged as security for fresh obligations (or, general for the 24th year currency loan and the 23rd year customs revenue loan) in disregard of the prior claims of the bondholders under article 9 of the Hukuang loan agreement. In these circumstances, the undersigned foreign representatives have the honor once again to request that His Excellency the Minister for Foreign Affairs will urge the competent departments of the Chinese Government to make provision for the service of this loan, either from the general revenue of the Government as provided for in article 8 of the agreement, or from those customs revenues specifically named in article 9 as alternative security in the event of the earnings of the line proving insufficient and the abolition of likin".

After careful consideration of the above with particular reference to the Department's 297, August 23, 1 p. m. 1933 [40] and 197, July 9, 5 p. m., 1935 [*July 5, 6 p. m., 1934*] [41] I recommend that I be authorized to sign the joint memorandum quoted above.[42]

JOHNSON

893.51/6045

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

No. 3788 PEIPING, September 13, 1935.
[Received October 5.]

SIR: I have the honor to refer to the Department's instruction No. 1721, of July 26, 1935, with regard to the Hukuang Railways Loan of 1911, in the penultimate paragraph of which reference was made to the alleged statement of General Chiang Kai-shek to Mr. Cameron Forbes to the effect that it was his intention "shortly to appoint a foreign executive committee to run the railroads of China".

As of possible interest in this connection there is enclosed a clipping from the *Peiping Chronicle* of September 11, 1935,[43] in regard to the return to England of General F. D. Hammond, a British Railway expert who has been in China since May of this year at the invitation of the Chinese Government for the alleged purpose of making a general survey of Chinese railways. Bearing in mind the Department's instruction mentioned above, a member of the Legation staff recently attempted to ascertain in a conversation with the Commercial Secretary of the British Embassy whether there was any connection between General Hammond's visit to China and General Chiang's proposal to create a foreign executive committee "to run the railroads of

---

[40] *Foreign Relations*, 1933, vol. III, p. 646.
[41] *Ibid.*, 1934, vol. III, p. 557.
[42] Authorization was given in Department's telegram No. 277, September 11, 1935, 2 p. m.
[43] Not reprinted.

China." There is enclosed a copy of a memorandum of this conversation,[44] from which it will be observed that the British Commercial Secretary gave the impression that the British Embassy was not cognizant of General Chiang's proposal as mentioned to Mr. Forbes and, moreover, that its information in regard to General Hammond's visit was somewhat vague. According to the British Commercial Secretary, General Hammond has made numerous railway investigations of a character similar to that which he undertook at the request of the Chinese authorities, a fact which was indicated in despatch No. 10,042 of May 7, 1935, addressed to the Department by the Consul General at Shanghai.[44] Therefore, while there may be some relationship between General Hammond's work in China and the proposed plan of General Chiang, it is probable that this relationship exists only in the mind of the Generalissimo and that the British Embassy has no knowledge thereof.

Although foreign railway experts have in the past frequently recommended that a foreign committee be appointed to run the railways of China, the first intimation which the Legation received to the effect that General Chiang was seriously considering such a plan was contained in the Department's instruction under reference. The Legation, however, will continue to follow the subject and endeavor to obtain more conclusive information in regard to this matter.

Respectfully yours, For the Minister:
LAURENCE E. SALISBURY
Second Secretary of Legation

893.51/6068

The Chinese Ministry for Foreign Affairs to the American Embassy in China[45]

MEMORANDUM

The Ministry of Foreign Affairs presents its compliments to the American Embassy, and has the honor to acknowledge the receipt of a joint memorandum dated October 17th from the American and British Embassies and the French Legation, relating to defaults in the Hukuang Railways Loan, in which it was stated that a further default took place in the payment of the principal and interest due on June 15, 1935, and that the total amount in default was then approximately £3,000,000. They requested the competent departments of the Chinese Government to make provision for the service of this Loan.

Despatches were addressed to the Ministries of Railways and Finance, from which replies have been received, stating:

[44] Not printed.
[45] Copy transmitted to the Department by the Ambassador in China in his despatch No. 117, December 4; received December 30.

"With reference to the Hukuang Railways Loan, inasmuch as the line of the said Railways is not completed and its income is very small, in recent times only one installment of interest has with great effort been paid each year. We have asked you in writing to transmit our replies to those concerned to the effect that special attention has always been paid to the Customs revenue pledged as security, and that at the present time there is not enough to go round.

"The issuance of the 24th Year Currency Bonds was an act to strengthen the foundation of the currency and was a matter governed by special circumstances. With regard to the issuance of the 23rd Year Customs Revenue Bonds, the sum of fifty million dollars of the 23rd Year Customs Revenue Treasury Notes which had previously been issued and later taken back was transferred and earmarked as the sinking fund for the Bonds. This was an arrangement of the national treasury to make ends meet. It is hoped that these circumstances will be duly understood."

Aside from making separate replies to the others concerned, the Ministry of Foreign Affairs has the honor to make this reply for the Embassy's information.

[NANKING,] November 11, 1935.

893.51 Con- Ob- Chinese Engineering and Development Co./22

The American Embassy in China to the Chinese Ministry for Foreign Affairs [46]

MEMORANDUM

The American Embassy presents its compliments to the Ministry of Foreign Affairs and has the honor to refer to the Ministry's memorandum of October 9, 1935, concerning, *inter alia*, the claim of the Chinese Engineering and Development Company, an American firm, against the Tientsin–Pukow Railway. The Ministry's memorandum quotes a communication from the Ministry of Railways in which it is stated that

"Although the Tientsin-Pukow Railway has already proposed an arrangement for the adjustment (of its debts), no comparison can be made with the Peiping–Hankow Railway, because of economic conditions. As the financial resources (of the Railway) at present are not sufficient for distribution, it is difficult at present to carry out the proposed arrangement."

This statement does not appear to be in agreement with information which has reached the Embassy to the effect that British creditors of the Railway are being paid under an arrangement entered into in 1933 and that the Tientsin–Pukow Railway loan negotiated by the Mitsui Bussan Kaisha, is being liquidated to the satisfaction of the Japanese creditors.

---

[46] Copy transmitted to the Department by the Ambassador in China in his des-

The Embassy's memorandum of September 17, 1935, mentioned a press report of payment to Japanese creditors and asked to be advised whether that particular report was correct but the Ministry's memorandum of October 9 failed to supply this information. The Embassy's memorandum of September 17 also mentioned that Mr. Harry A. Raider, President and General Manager of the Chinese Engineering and Development Company, had repeatedly endeavored to effect an arrangement by which the Company's claim might be liquidated, but that for reasons unknown to him or to the Embassy neither the Tientsin–Pukow Railway nor the Ministry of Railways had been willing to negotiate a settlement. Mr. Raider has recently visited Nanking again in this connection and a letter from him dated December 13, 1935, states that his further efforts to obtain a settlement have been unavailing.

Since it would appear that British and Japanese creditors of the Tientsin–Pukow Railway are being paid, the Embassy is at a loss to understand the reluctance of the Ministry of Railways to conclude a settlement with the American firm in question. The Embassy therefore earnestly requests that the Foreign Office bring to the attention of the Ministry of Railways this apparent discrimination against an American creditor of the Tientsin–Pukow Railway and that it urge the Ministry to arrange a settlement with Mr. Raider, who plans to return to Nanking in a few days for that purpose.[47]

NANKING, December 16, 1935.

REPRESENTATIONS BY THE UNITED STATES AGAINST THE ESTABLISHMENT OF MONOPOLIES IN CHINA

893.6359 Antimony/11

The American Chargé in China (Gauss) to the Chinese Acting Minister for Foreign Affairs (Wang)[48]

No. 842 PEIPING, December 12, 1934.

EXCELLENCY: I have the honor to inform Your Excellency that the Legation has received reports from the American Consulate General at Hankow from which it appears that the Hunan Provincial Government has granted to an organization known as the Hunan Antimony Syndicate monopoly rights for the sale and export of antimony

[47] This claim was settled by an agreement signed by Mr. H. A. Raider for the Chinese Engineering and Development Company, and Mr. C. H. Yang, Managing Director of the Tientsin–Pukow Railway, March 31, 1936. The agreement provided for a total payment of Y$94,512.00 in 60 noninterest-bearing monthly payments beginning July 1934; Y$33,079.20, representing the installments from July 1934, to be paid 10 days after date of the agreement. (893.51 Con. Ob. Chinese Engineering and Development Co. /22)

[48] Copy transmitted to the Department by the Chargé in China in his despatch No. 3195, December 17, 1934; received January 16, 1935.

from Hunan Province. In substantiation of these reports, the Consulate General has now communicated to the Legation telegrams exchanged with the Chairman of the Hunan Provincial Government. Copies of these telegrams are enclosed for Your Excellency's information.[49]

It has further been reported that the Hunan Antimony Syndicate has been negotiating with a foreign firm at Hankow for the financing of the monopoly project in return for certain sole export privileges.

I must protest the monopoly arrangements of the Hunan Provincial Government for the control and export of antimony as in contravention of the treaty undertakings of China as set forth in Article XV of the Sino-American treaty of 1844,[50] Article XIV of the Sino-French treaty of 1858,[51] and Article III of the Nine Power Treaty concluded at Washington in 1922.[52]

I request that Your Excellency's Government will, in accordance with its treaty obligations, take prompt and effective measures for the removal of the restrictions imposed by the action of the Hunan Provincial Government upon the purchase and export of antimony by American merchants.

I avail [etc.] C. E. GAUSS

893.6359 Antimony/11 : Telegram

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

WASHINGTON, January 21, 1935—2 p. m.

14. Your despatch 3195, December 17.[53]

1. Please report existing situation in regard to Hunan antimony monopoly.

2. If Foreign Office has failed to reply adequately to Legation's note of December 12, Department suggests that matter again be pressed.

HULL

---

[49] Neither printed.

[50] Signed at Wang Hiya, July 3, 1844; Hunter Miller (ed.), *Treaties and Other International Acts of the United States of America*, vol. 4, p. 559.

[51] Signed at Tientsin, June 27, 1858; *British and Foreign State Papers*, vol. LI, p. 636.

[52] Signed February 6, 1922; *Foreign Relations*, 1922, vol. I, p. 276.

[53] See footnote 48, p. 767.

893.6581/5 : Telegram

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

NANKING, January 22, 1935—1 p. m.
[Received January 22—7 : 26 a. m.]

7. An unofficial but apparently entirely reliable report has been received that the Chinese Government has almost completed a scheme for a government sugar monopoly and that it will be announced in the near future.

Repeated to Legation.

PECK

893.6359 Antimony/12 : Telegram

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

PEIPING, January 22, 1935—3 p. m.
[Received January 22—7 : 26 a. m.]

31. Reference Department's 14, January 21, 2 p. m., Foreign Office has not yet replied to the Legation's note of December 12. Peck reported January 19 that Foreign Office states it expects to reply very soon.

By despatch dated January 11 Peck has forwarded a communication from the Department of European and American Affairs of the Foreign Office enclosing a letter from the Ministry of Industries quoting a report from the provincial government to the effect that (1) the Hunan Antimony Syndicate is organized in accordance with the provincial regulation providing that "all antimony produced within the territory of Hunan Province must be handled by the syndicate otherwise it may not be exported" and (2) the antimony syndicate is not negotiating with a British firm in Hankow regarding the sale of antimony as reported.

Recent information from the Consulate General at Hankow is to the effect that (1) the operations of the syndicate have increased the price of antimony, (2) these operations have thus far been financed with the assistance of Chinese banks, but the syndicate very probably feels the need of reaching some more satisfactory arrangement for long-term financing, and (3) a German firm in Hankow was approached by the syndicate with a proposition for the financing of antimony sales after the suspension of negotiations with the British firm of Arnhold and Company.

GAUSS

893.6581/5 : Telegram

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

WASHINGTON, January 25, 1935—7 p. m.

24. Reference Nanking's No. 7, January 22, 1 p. m., to the Department in regard to reported sugar monopoly. In view of the increasing number of indications that the Chinese Government is considering the creation of various kinds of commercial monopolies, the Department inclines to the view that this situation should be followed with care to the end that, whenever appropriate and practicable, steps be taken to record with the appropriate Chinese authorities the fact that such monopoly projects, if put into effect, would contravene the provisions of existing treaties.

Department therefore suggests that the Chargé, while avoiding action which would place him or the American Government in a position of instigator, endeavor to ascertain orally and informally the views in regard to this subject of his principally interested colleagues and that thereafter he report to the Department by telegram.

HULL

893.6581/6 : Telegram

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

NANKING, January 28, 1935—10 a. m.
[Received January 28—9 : 20 a. m.]

17. My 7, January 22, 1 p. m. to the Department. I am now informed by a colleague stationed in Nanking that he has learned from Chinese official sources that the Chinese Government has abandoned, at least for the time being, both the idea of a sugar monopoly and also its intention to double the import duty on leaf tobacco (see Legation's January 8, 5 p. m. [*9 a. m.?*]).[54] My colleague inquired whether the American Legation was concerned over the rumored intention to institute a match monopoly and I replied that I thought an interested American company in Shanghai intended to present this matter for the Legation's consideration.

PECK

---

[54] See telegram No. 10, January 9, 1935, noon, from the Chargé in China, *Foreign Relations*, 1934, vol. III, p. 572.

893.6359 Antimony/13 : Telegram

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

PEIPING, February 1, 1935—7 p. m.
[Received February 1—3 : 20 p. m.]

56. Legation's 31, January 22, 3 p. m. Foreign Office reply of January 25 to the Legation's note of December 12 is definitely unsatisfactory. The Chinese contention is that the Hunan antimony syndicate constitutes a merchants' organization comparable to syndicates of productive enterprises found in other countries having as object the standardization of prices and the maintenance of the level of production and therefore it has nothing to do with the provisions of article 15 of the Sino-American Treaty of 1844 and article 14 of the Sino-French Treaty of 1858 because the purpose of the articles mentioned was to abolish the system of Hong merchants formed by a third party. Foreign Office holds that since the syndicate has not concluded any monopoly contract with a British firm the Nine Power Treaty has not been violated.

With reference to the Department's telegram 24, January 25, 7 p. m., it seems improbable that the American Government will receive much support from any creditors other than the British because of the possible interest of the Japanese in obtaining monopoly privileges for themselves in China and the comparatively smaller commercial interests of France and Italy in the China trade. The views of the interested Legations are being ascertained and will be reported to the Department.

The Legation contemplates drafting another note to the Foreign Office concerning the antimony monopoly along the lines of its note of October 6, 1933,[55] protesting against the establishment of a tungsten monopoly.

GAUSS

893.6359 Antimony/13 : Telegram

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

WASHINGTON, February 6, 1935—5 p. m.

37. Your 56, February 1, 7 p. m., in regard to antimony monopoly.

1. Basing its views upon such information as is now available the Department does not agree with the contentions of the Foreign Office

[55] Not printed; for pertinent portion of the note, see Department's telegram No. 336, October 6, 1933, 3 p. m., *Foreign Relations*, 1933, vol. III, p. 597.

that the treaty provisions cited in the first paragraph of your telegram under reference are not applicable to the Hunan Antimony Syndicate.

2. Department suggests that you follow the course of action outlined in the concluding paragraph of your telegram under reference and that in so doing you bear in mind paragraph 1 of the Department's telegram No. 44, February 19, [1934,] 1 p.m.,[56] in regard to the then proposed wolfram ore monopoly.[57]

3. Has the Japanese Legation taken action in addition to that stated in the first paragraph of your 578 of December 15, 4 p. m.? [58]

HULL

893.6359 Antimony/15 : Telegram

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

PEIPING, February 15, 1935—9 a. m.
[Received February 15—2:30 a. m.]

75. Department's 24, January 25, 7 p. m. and Legation's 56, February 1, 7 p. m., concerning Chinese monopolies. The British Legation is impressed by the possible consequences of the Chinese tendency toward monopolies and takes a position substantially the same as the American. It is apparently prepared to protest, if it is feasible where British interests are affected, on the basis of the same treaty provisions, but it appears to be in a quandary as to the action which it might take in reference to British interests which acquired special privileges in defiance of the provisions of the Washington Treaty of 1922.

The Japanese Minister resides at Shanghai. Japanese Legation Office here has little information. Peck reports February 14, 4 p. m., in reply to an inquiry from the Legation, that Suma [59] of the Japanese Legation says that three oral protests were made against the proposed antimony monopoly arrangements with a British firm but that when this arrangement was abandoned there was no necessity for a written protest and none was sent. Suma also said that the Japanese protests were not directed against the organization of producers and sellers

---

[56] Not printed; paragraph 1 stated:
"The Department is of the opinion (*a*) that article 3 of the Nine Power Treaty does not preclude a protest against the establishment of a government trade monopoly; (*b*) that article 15 of the Sino-American Treaty of 1844 and article 14 of the Sino-French Treaty of 1858 in effect prohibit Chinese private and government as well as foreign trade monopolies and thus afford ample ground for a further protest to the Chinese Government." (893.6359 Wolfram Ore/30)

[57] For other correspondence on the wolfram monopoly, see *Foreign Relations*, 1933, vol. III, pp. 593 ff.

[58] Not printed.

[59] Yakichiro Suma, First Secretary of the Japanese Legation in China and Japanese Consul General at Nanking.

of antimony. He stated that the one Japanese firm dealing in antimony reports business was satisfactory and it had not occurred to the Japanese Legation to protest against the organization in question. In its oral protests the Japanese Legation did not base its objections on any specific treaty stipulations.

Other than ourselves, the British and the Japanese are the powers which would be principally affected by Chinese monopolies. The Swedish Chargé d'Affaires is interested in a reported match monopoly proposed at Nanking, but told me during a recent visit to Peiping that he is doing nothing more than to make persistent inquiries on the matter. The position of his Government has not been outlined to him. The French Minister has been absent at Nanking and Shanghai for several months. I cannot ascertain the French view with any satisfaction until he returns to Peiping.

The matter has been mentioned in a memorandum sent to Minister Johnson at Shanghai [60] with the suggestion that he may wish to take the opportunity to sound out the views of his colleagues there and at Nanking when he sees them. With chiefs of mission residing at Peiping, Shanghai and Nanking and those at Peiping frequently absent in the south it is difficult to get a satisfactory exchange of views.

GAUSS

893.6359 Antimony/15 : Telegram

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

WASHINGTON, February 21, 1935—6 p. m.

46. Your 75, February 15, 9 a. m.

1. Department assumes that as opportunity offers the Legation will continue in its endeavors to follow the suggestion outlined in the Department's telegram 24 of January 25, 7 p. m.

2. Department also assumes that the Legation has acted in accordance with the suggestion made in paragraph 2 of the Department's telegram 37 of February 6, 5 p. m., and that when practicable the Legation will telegraph the result of its action.

HULL

893.6363/121 : Telegram

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

NANKING, February 25, 1935—4 p. m.

[Received February 25—3 p. m.]

39. 1. Jett W. [*John O.*] Wicks representing Benedum Trees Company of Pittsburg and Walter A. Jones has informed me in strict

[60] The Minister was returning from leave.

confidence that he presented to the Chinese Minister of Industry a proposal for the erection of an oil refinery in China. Proposal is in form of a partnership with the Chinese and gives to grantee access to future Chinese oil supplies as well as exclusive right to refine petroleum products in China or from crude oil imported from outside sources. Copy of draft proposal has been given to me by Ministry of Industry with the request that I ask you whether such a proposal is workable and would be approved by the United States Government. I am forwarding a copy of Minister of Industry's letter and draft proposal by mail.[61] I have acknowledged receipt stating that I can express no opinion until matter has been considered by the Department and instructions received.

2. I understand that if plan is carried out it may be necessary to force foreign oil companies now in field to cooperate with grantee through existing machinery of distribution. Proposal would appear to set up a state monopoly for the refining of oil and for the sale of refined oil products within China.

3. Department's February 23, 3 p. m.[61] to Shanghai has just been received but I shall await Department's reply to this telegram before taking further steps.

4. Paraphrase to Peiping by mail.

JOHNSON

893.6363/121 : Telegram

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

WASHINGTON, March 1, 1935—2 p. m.

59. No. 39, February 25, 4 p. m. from Minister at Nanking. The Department desires that the Legation take appropriate steps orally and informally to bring to the personal attention of the Minister of Industry and of Mr. Wicks the general policy of the American Government in regard to monopolies in China, pointing out that, although the Department is not in position to pass upon in advance any particular concession or proposal without having all the facts before it, this proposal, as reported in the above mentioned telegram, would appear clearly to contravene Article 3 of the Nine Power Treaty of February 6, 1922, to which both the American and Chinese Governments, among other governments, are signatories and that in the circumstances the American Government would be [forced to disapprove] the proposal.

PHILLIPS

---

[61] Not printed.

893.6359 Antimony/18

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

No. 3441 PEIPING, March 19, 1935.
[Received April 20.]

SIR: I have the honor to refer to this Legation's telegram No. 86 of February 23, 12 noon,[62] concerning the Hunan Antimony Syndicate, and to enclose herewith a copy of despatch L. No. 64 of March 8, 1935, from the Consul General at Hankow,[62] transmitting additional information on the subject. The Department will note that the Consul General reports that the Syndicate is not now, so far as known, negotiating with any firm with regard to the granting of monopoly rights for the sale or export of antimony, and that the Syndicate is now in a weak financial position.

As of possible further interest, there is also enclosed herewith a copy of despatch No. L–637 Diplomatic of March 2, 1935, from Counselor Peck[62] concerning the same subject. It may be observed that, despite the fact that Mr. Peck on March 2 urged Dr. S. S. Liu of the Department of European and American Affairs of the Foreign Office to take some action on the Legation's note of February 11, no reply to that communication has yet been received. Mr. Peck is being directed to inquire again of the Foreign Office when a reply may be expected.

Respectfully yours, NELSON TRUSLER JOHNSON

893.6363/128

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

No. 3487 PEIPING, April 4, 1935.
[Received May 4.]

SIR: I have the honor to enclose a copy of the Hankow Consul General's despatches to the Legation No. 41 of February 11, 1935, No. 48 of February 16, 1935, and No. 56 of February 28, 1935,[63] regarding the institution of what appears to be a form of monopoly for the sale of kerosene in Kiangsi Province through the formation of various District Cooperative Societies.

It appears that in connection with the bandit suppression campaign in Kiangsi Province it was found desirable to institute certain restrictions and restraints upon the transportation and sale of kerosene, and that now, even though the conclusion of the bandit

[62] Not printed.
[63] None printed.

suppression campaign has been officially announced, there are indications of an intention to retain the same hindrances upon the trade in kerosene.

Although the Standard-Vacuum Oil Company did not complain of the hardships resulting from these hindrances upon trade so long as they were considered necessary to the prosecution of the bandit suppression campaign, that company has now expressed its desire for the early removal of all such hindrances, which, if continued in the form indicated by the regulations would appear to result in a virtual monopoly of the sale of kerosene in that Province.

Accordingly, in an instruction of February 19, 1935, a copy of which is enclosed,[66] the Legation directed the Counselor at Nanking to call upon an appropriate official of the Ministry of Foreign Affairs and request to be informed of the plans of the Government with regard to the question of the gradual removal of the restrictions upon trade which had been found necessary during the bandit suppression campaign. Mr. Peck was directed to endeavor to impress upon the official with whom the matter was discussed, the desirability, in the interests both of the trade and of the revenue, that all restrictions be removed as soon as conditions permitted. It was also suggested that he might appropriately point out the fact that any permanent restrictions which in practice result in a monopoly of the sale of petroleum products would be contrary to the treaty obligations of the Chinese Government.

In his despatches in reply, No. 635–Diplomatic of March 2, 1935, and No. 650–Diplomatic of March 13, 1935, copies of which are enclosed,[67] the Counselor of Legation at Nanking reported having taken this matter up with Dr. Tchou, the Director of the Department of International Affairs of the Ministry of Foreign Affairs, who, in compliance with a suggestion of the Ministry of Finance, had referred it to the headquarters of General Chiang Kai-shek, now located in Wuchang.

In his further despatch to the Legation No. 60 of March 7, 1935, a copy of which is enclosed,[66] the Consul General at Hankow reported the continued collection in Kiangsi Province of a so-called "Bandit Suppression and Rehabilitation Tax", and, as the question of the continued collection of this tax and that of the proposed formation of cooperative societies for the sale of kerosene would both appear to be closely related to the plans of the National Government for rehabilitation in Kiangsi Province, the Legation, in an instruction of March 12, 1935, a copy of which is enclosed,[66] directed the Counselor at

[66] Not printed.
[67] Neither printed.

Nanking again to call upon the Director of the Department of International Affairs and once more endeavor to urge the desirability, in the interests of all concerned, that all such restrictions and hindrances upon trade be removed as soon as conditions permit. Mr. Peck was also directed to point out that the imposition of the taxation in question would appear to be contrary to the announced policy of the National Government to strive towards a unification and simplification of taxation, and again to express the Legation's sincere hope that now that the bandit suppression campaign has been concluded in Kiangsi Province adequate measures may be taken to ameliorate the situation there by the removal of the various existing restrictions and restraints upon trade.

In his reply of March 22, 1935, a copy of which is enclosed,[68] the Counselor of Legation reported a further interview with Dr. Tchou, from which it would appear that no reply had been received to the inquiry which had been addressed to the headquarters of General Chiang Kai-shek, but that Dr. Tchou promised that his Ministry would address another communication to the headquarters in Wuchang, conveying the information regarding the Rehabilitation Tax and setting forth the substance of the Legation's views upon the subject as well as those of the British Legation which, according to Dr. Tchou, has also made representations in the premises.

For the completion of the Department's files, there is enclosed a copy of the Hankow Consul General's despatch to the Legation No. 80 of March 27, 1935,[68] reporting the continued requirement of "huchaos" for shipments of kerosene within Kiangsi Province.

As these various hindrances upon trade which are being encountered by the oil companies doing business in Kiangsi Province would appear to be an aftermath of the bandit suppression campaign and to be closely related to possible plans of the National Government for rehabilitation in that Province, the Legation, believing that the best interests of all concerned would thereby be served, has contented itself with inquiries as to the plans of that Government and an expression of its hope that an early means would be found to ameliorate the situation now that the bandit suppression campaign has been concluded.

Should the rehabilitation plans of the National Government when revealed envisage measures which would impinge American treaty rights, then the Legation contemplates giving further consideration to the possible desirability of entering formal protest with the Government.

Respectfully yours, NELSON TRUSLER JOHNSON

[68] Not printed.

893.6359 Antimony/19

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

No. 3503 PEIPING, April 12, 1935.
[Received May 4.]

SIR: I have the honor to refer to my despatch No. 3441 of March 19, 1935, regarding the Hunan Antimony Syndicate, and to enclose a copy, in English translation, of a note received from the Acting Minister for Foreign Affairs under date of April 4, 1935,[71] in reply to the Legation's note of February 11th protesting against the Foreign Office's interpretation of the relevant treaty provisions.

It will be observed that Acting Minister Wang Ching-wei in his note does not actually undertake a refutation of the particular points of the Legation's argument. He resorts instead, as in his note of January 25, 1935,[72] to the general contention that the treaty provisions cited refer only to hong, or "quasi-hong", organizations of "third party" interests. This contention is supported by the general denial that the Hunan Antimony Syndicate in particular is more than "a joint business organization incorporated by mining merchants themselves", which "naturally cannot be compared with a monopoly or control in between by a third party." This somewhat unsatisfactory manner of argument suffices for Dr. Wang Ching-wei to reach the conclusion that there is "no conflict whatsoever" with the treaty provisions cited.

The substance of the position taken by the Nanking Government as regards the subject of monopolies seems to lie in the Chinese feeling, indicated in both of the above-mentioned notes, that monopoly organizations such as the Hunan Antimony Syndicate are modelled along lines now being followed in other countries in the establishment of production-syndicates and collective enterprises, and that the Chinese have the same right, irrespective of treaty provisions, to organize for production and distribution in that manner. The indications are that the Chinese Government is prepared to encourage the development of such organizations as rapidly as circumstances permit.

At the same time, the attitudes of Japan and Great Britain concerning the general subject of monopolies in China are not clear except insofar as there is a breach of the pertinent provision in the Nine Power Treaty imposing restrictions on the acquirement of monopoly rights in China by foreign interests. The British Legation, in fact, seems to doubt whether the relevant treaty provisions were ever meant to be prohibitive of such purely Chinese monopoly organizations, the treaties in question having been negotiated long before

[71] Not printed.
[72] Not printed; for substance of note, see Legation's telegram No. 56, February 1, 7 p. m., p. 771.

modern commercial and political developments could have been foreseen. It may be noted that the Japanese have evidently not cited the Sino-French Treaty of 1858 in their discussions regarding the matter with the Chinese authorities, and that Mr. Suma seemed interested in the idea that the treaties could be cited in argument against such monopoly organizations as the Hunan Antimony Syndicate in its purely Chinese aspect.

In these circumstances, the instructions of the Department are respectfully requested as to the procedure to be followed in the further pursuit of this matter.

Respectfully yours, NELSON TRUSLER JOHNSON

893.6363/126

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

[WASHINGTON,] April 16, 1935.

Conversation: Mr. Walter A. Jones, of Benedum Trees Company, Pittsburgh, Pennsylvania;
Mr. John O. Wicks, attorney, of Pittsburgh, Pennsylvania;
Mr. Hornbeck.

Mr. Wicks asked for an appointment and I received him at six o'clock this afternoon. He brought with him Mr. Jones.

I began the conversation with the statement that I was not as well prepared as I would like to be to discuss the draft contract [73] which Mr. Wicks had left with me on April 15 (see memorandum of that date [73]). I said that I however had in hand comments on the proposed contract which had been prepared by an officer of the Division and a memorandum giving the opinion of one of our law officers.[74] I then read aloud, in paraphrase, portions of the statements of Mr. Myers's [75] and Mr. Ward's [76] observations. At two points I interjected the statement that on the basis of what I had just read, if the provisions of the contract were therein accurately reported, it would seem to me clear that the Department would not be able to give the project its approval. Mr. Wicks apparently accepted the statements which I had read as accurately accounting for the provisions in the contract to which they related. He said, however, that in connection with the provision that "the National Government of China agrees to defend this special right and every part thereof", it had not occurred to him

[73] Not printed.
[74] Neither printed.
[75] Myrl S. Myers, of the Division of Far Eastern Affairs.
[76] Frank X. Ward, Assistant to the Legal Adviser.

that such a provision would place his enterprise in a privileged position. He went on to give reasons, inherent in the situation in China, as he saw it, necessitating the precaution by a concessionaire of obtaining a promise on the part of the Chinese Government to afford protection.

. . . I then gave an account of the origin and character of the treaty provisions, of the attitude of the powers with regard to the matter, of the traditional policy and practice of the American Government, etc.; I gave a brief sketch of efforts which had been made and difficulties which had been encountered in connection with some concessions; and I mentioned the problem which is created by current efforts from some quarters to establish monopolies. I said that the American Government considers the establishing of monopolies in China a thing prohibited by treaty and undesirable in principle, and that we therefore of course could not give support or lend countenance to a project of American origin which would contemplate the establishing in fact and in appearance of a monopoly.

Mr. Jones asked certain questions with regard to the Chinese Government, the foundation on which it rests, etc.; and I answered his questions. I went on to say that any Americans contemplating doing business in China which would involve the taking and development of concessionary rights ought to have their eyes wide open to the fact that they are going into a field which is full of hazards; that the American Government, while it will do its best by diplomatic processes to obtain and maintain respect for such rights as may be theirs, will not undertake to use force or threats of force on their behalf; that the situation in the Far East is full of uncertainties and therefore the launching of new enterprises which may involve a considerable investment of capital must involve a considerable percentage of speculative character.

Mr. Wicks again remarked certain of the factors which had made him feel it necessary to contract for measures intended to throw protection around his project. I then asked whether it would not be a fact that, if these provisions were agreed upon by the Chinese, his company would possess features of legal right to advantages not enjoyed by other American oil enterprises already established in and operating in China? Mr. Wicks admitted that it would be. I then remarked that, while giving assistance and protection to any one American interest, the Government has to think of the rights and interests of all American enterprises and of the United States as a whole, and that we cannot discriminate and cannot favor one enterprise at the expense of others. I asked whether, if Mr. Wicks's project eventuated, there would not accrue to the other American oil companies disadvantage in competition and, if this project prospered, losses in business approxi-

mately equal to this company's gains. . . . They said that representatives of the other companies in China realize that, in the long run, their business there is doomed. They said that the Chinese intend to establish their own refineries and to find oil in China, if there is any there, and to make the oil business as much as possible their own. Hence, it seems advisable for foreign oil enterprise to tie up with the Chinese. (Note: From the way in which they explained this, I gained the impression that they have in mind the idea of assisting in the development by Chinese officialdom of what would ultimately be a Chinese governmental oil monopoly, which monopoly would be more or less in "partnership"—they actually used that word at one point—with American oil interests. They said that the Chinese could get assistance from the British but that they did not want it; the Chinese wanted business with Americans.)

Mr. Jones, reverting back to my opening remarks, asked that I take time to read the contract myself and give the matter my thought. I said that I would be glad to do this, but that I had no doubt whatever but that my associates had given me a perfectly clear account of its contents. Mr. Jones said that he would be in Washington for some time; and I said that I would be glad to discuss the matter with him at some later date.

S[TANLEY] K. H[ORNBECK]

893.6363/129

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

No. 3517 PEIPING, April 19, 1935.
[Received May 18.]

SIR: I have the honor to enclose, in supplement to the Legation's despatch No. 3487 of April 4, 1935, in regard to the restrictions and hindrances upon trade in Kiangsi Province, a copy of the Hankow Consul General's despatch to the Legation No. 87 of April 13, 1935.[77]

The Consul General's despatch indicates that the Kiangsi Provincial Government has directed the abolishment of the salt and petroleum public sales bureaus in the districts where the blockade has been lifted, "huchaos" continuing temporarily to be required for shipments of over 100 catties, and that the scheme for the establishment of cooperative societies to monopolize the kerosene trade appears to have been dropped.

Respectfully yours, For the Minister:
F. P. LOCKHART
Counselor of Legation

---

[77] Not printed.

893.6359 Antimony/19 : Telegram

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

WASHINGTON, May 24, 1935—4 p. m.

138. Your despatch No. 3503 of April 12 in regard to the Hunan Antimony Syndicate. Although your despatch under reference indicates clearly the views of the Chinese Government and, to a lesser degree, the views of the British and Japanese Legations in regard to the syndicate, it does not include either the views or recommendations of the American Legation as to possible future action.

Department, before giving further consideration to this subject in the light of the note addressed to the Legation by the Ministry of Foreign Affairs under date April 4,[78] desires to receive, either by radio or by mail, a statement of your views and recommendations.

HULL

893.6359 Antimony/20

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

No. 3619 PEIPING, June 15, 1935.
[Received July 13.]

SIR: I have the honor to refer to the Department's telegram No. 138 of May 24, 4 p. m., regarding the Hunan Antimony Syndicate, and to outline below the views of the Legation on the subject.

The British policy, according to information obtained from the British Legation, contemplates the resisting of the establishment of monopolies similar to the Hunan Antimony Syndicate, even though the British authorities admit privately that there exists a reasonable doubt whether the treaty provisions cited in support of official protests were based upon an appreciation of modern commercial developments. The Japanese have thus far limited their protests to developments that they considered to be in violation of the pertinent provisions of the Washington Treaty of 1922. The American position has thus far been like the British with the perhaps important difference that the British Legation admits that, where British interests were connected with the establishment of such a monopoly, the particular instructions of the British Foreign Office would have to be asked as regards the procedure to be followed, if any.

It seems indubitable that the present "natural" tendency in China is toward the development of modern commercial and industrial structures by either private or governmental combinations of capital. The entrepreneurs who would be financially able to embark upon individual enterprises on a large scale are definitely limited in number,

[78] Not printed.

and, moreover, present conditions in China are not such as would stimulate the launching of projects that were not possessed of official connections to an extent guaranteeing their undisturbed functioning on a profitable basis. These observations apply with special force to the subject of mining enterprises, and railway financing and certain light industries.

In many cases, those enterprises projected by Government-sanctioned or governmental combinations of capital would constitute, in actual effect, monopoly combinations. It is true that such enterprises are not at present a prominent feature of the Chinese economic scene, but this fact represents more the National Government's present lack of financial resources than the absence of such an economic conception. As regards the particular case of the Hunan Antimony Syndicate, for example, it is reported that the monopoly organization is weakening; this, however, reflects the deleterious economic situation that exists generally and the weakness of the financial structure on which the Syndicate rests, and is not to be considered an abandonment of the project because of the American protests or other political or theoretical reasons. Again, the establishment of match, sulphuric-acid, cigarette, and other monopolies is checked for the time being only by difficulties connected with the financing of such projects, and not by any consideration of the foreign interests that might be adversely affected.

It appears, in short, as if the tendency toward the establishment of official or officially-sanctioned monopolies is inherent in the present economic situation in China, but the actual implementation of such projects is deferred pending changes, as yet entirely hypothetical, that will strengthen the financial position of the Chinese Government. It is believed that the situation would be the same whatever group in China might be in power.

A policy of definite opposition to the establishment of monopolies would have little chance of success against a strong Chinese Government. It should be remarked, however, that China is in practical monopoly possession of only two commercial minerals, namely, antimony and tungsten. In both of these fields, monopolies have been established that have attempted to raise prices for the benefit of the producers. In the case of trade in both commodities, however, the opposition of the foreign market to an unreasonable price appreciation has made itself felt effectively, and there is no reason to believe that China would be able as a result of the establishment of monopoly control to maintain those two products at a quite unreasonable price-level in spite of the concerted opposition of foreign buyers. In any event, in other fields of production there is little or no chance of China's effectively combatting fundamental world price-trends by means of monopoly control, by reason of the fact that it has monopoly

resources in no other important field of basic production. As regards the monopoly production of such articles as cigarettes, matches, sulphuric-acid, and other products of light industry, foreign interests are affected more severely if monopoly sale accompanies such production. Nevertheless, the general trend here is felt to be as definite as in the case of the production of raw materials like antimony, and the tendency will be stimulated by any success that may attend like developments in "Manchukuo".[79] There has been no protest by foreign Governments against China's official monopoly of salt-production, and it is improbable that the Chinese Government will in the long run view match-production, for instance, in any essentially different light. The chief check to an unfair use of the system of monopoly organization will probably rest finally with such commercial exigencies as profit-and-loss in connection with domestic-trade totals, and mutual benefit in international trade.

In these circumstances, the Legation would be inclined to suggest that there be followed a policy of general opposition to monopolies imposing unreasonable restraints on international trade, but that the policy be sufficiently flexible, and in accord with what are conceived to be the existing economic tendencies, to enable the United States Government to avoid the appearance of opposing fundamental trends in Chinese economic development. More specifically, it would seem to be advisable, for the present at any rate, to continue protesting against the establishment of purely official monopolies that might seem to be set up primarily for the purpose of directing commercial profits into the Government Treasury, with the aim of achieving the alteration of such official monopolies into more purely commercial enterprises if possible. The situation is such that a comparatively moderate amount of pressure, especially if supplemented by British action along the same lines, would upon occasion prevent the development of official monopolies in favor of commercial combines—if the latter were not opposed as well by foreign Governments. Commercial necessity might, in some instances, suffice to compel commercial groupings to adopt a reasonable attitude, and be inclined to compromise, in their dealings. It is not believed that much more can be expected in the existing situation.

Any monopoly combinations that gave foreign groups special interests in trade would naturally still be made the subject of determined protest.

As of possible interest in connection with this general subject, there are enclosed copies of two memoranda of conversations regarding the Hunan Antimony Syndicate, on May 30 and June 1, 1935, respectively.[80]

Respectfully yours, NELSON TRUSLER JOHNSON

[79] For developments in "Manchoukuo" and Japan, see pp. 877 ff.
[80] Neither printed.

893.6359 Wolfram Ore/38

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

No. 3626 PEIPING, June 15, 1935.
[Received July 13.]

SIR: I have the honor to refer to the Hankow Consulate-General's confidential report of August 24, 1934,[81] on "Important Developments in the Chinese Tungsten Trade", and the Legation's despatch No. 3619 of today's date regarding the Hunan Antimony Syndicate, and to enclose for the information of the Department a copy of a news item, in English translation,[81] appearing in the *Ta Kung Pao* (*L'Impartial*, Tientsin) of May 22, 1935, reporting a proposed reorganization of the production and sale of tungsten in Kiangsi.

It will be noted that, according to that report, the Kiangsi Provincial Government purposes to take over control of the mining, transportation and sale of tungsten in the province. The observations made in the Legation's above-mentioned despatch concerning the Hunan Antimony Syndicate apply equally as regards these new developments in the tungsten trade. The Legation has requested the Nanking Office and the Hankow Consulate General to investigate and report on this matter, and contemplates taking action along the same lines as those followed in the case of the Hunan Antimony Syndicate.

Respectfully yours, NELSON TRUSLER JOHNSON

893.6359 Wolfram Ore/39

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

No. 3637 PEIPING, June 20, 1935.
[Received July 13.]

SIR: I have the honor to refer to the Legation's despatch No. 3626 of June 15, 1935, reporting a proposal for the establishment of a tungsten monopoly in Kiangsi, and to enclose copies of despatches No. 119 and No. 125 of June 7 and June 14, 1935, respectively, from the Hankow Consulate General to the Legation,[82] regarding the matter.

It will be noted that the Kiangsi Provincial Government stated, in reply to the Consulate General's inquiry, that tungsten produced in Kiangsi is now exported from the province under the control of the Tungsten Mining Bureau. The Consulate General, however, reports that the amount of Kiangsi-mined tungsten exported through Changsha, Hunan, has increased considerably since January 1 of this year, and that there exists a competitive market for tungsten ore in that city.

---

[81] Not printed.
[82] Neither printed.

No reply has yet been received from the Central Government in response to inquiries made by the Legation at Nanking, as reported in the Nanking Office's despatch No. L–712 Diplomatic of June 7, 1935, a copy of which is enclosed.[83] In these circumstances, the Legation proposes to await a more definite expression of policy regarding the tungsten monopoly by the Central Government, and for a possible crystallization of the situation, before making any official representations in the matter.

Respectfully yours, NELSON TRUSLER JOHNSON

893.6359 Antimony/20

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

No. 1745 WASHINGTON, September 4, 1935.

SIR: The Department refers to the Legation's despatches Nos. 3626 of June 15 and 3637 of June 20, 1935, in regard to the proposed tungsten monopoly in Kiangsi, and No. 3619 of June 15, 1935, in regard to the Hunan Antimony Syndicate and monopolies in general.

By reference to the first two of the above-mentioned despatches, the Department notes the statement made by the Kiangsi Provincial Government that control over the export of Kiangsi-mined tungsten ore is centered in the Wolfram Mining Bureau; that such control apparently is not effective, as increased amounts of Kiangsi tungsten ore are exported through Changsha, Hunan; that in consequence of such deflection of supplies there exists at Changsha a competitive market for tungsten ore; that the Nanking office of the Legation is endeavoring to obtain from the Central Government a statement in regard to the proposed monopoly; and that the Legation, before officially discussing the matter with the appropriate Chinese authorities, proposes to await a possible clarification of the situation and the receipt from the Central Government of a definite expression of policy in regard to the monopoly under discussion. The Legation's intention to acquaint itself thoroughly with the facts of this situation, before giving consideration to the advisability of making an official approach to the Central Government, has the approval of the Department.

With reference to the Legation's despatch No. 3619 of June 15, 1935, which relates to the Hunan Antimony Syndicate in particular and to monopolies in general, the Department desires to commend the Legation for its careful analysis of the situation under discussion and to offer certain observations and suggestions which may be of assistance to the Legation in its further consideration of this subject.

[83] Not printed.

By way of background, it may be stated that in the opinion of the Department, and notwithstanding assertions by the Chinese Government to the contrary, the creation of Chinese private and government trade monopolies, as well as foreign trade monopolies, would, in whole or in part, contravene the provisions of Article 15 of the Chinese-American Treaty of 1844, Article 14 of the Chinese-French Treaty of 1858 and Article 3 of the Nine Power Treaty of 1922. Thus the Department is in complete agreement with the Legation's able and comprehensive presentation to the Chinese Government of this phase of the situation as set forth in the Legation's note of October 6, 1933, addressed to the Acting Minister for Foreign Affairs.[84] However, bearing in mind not only the foregoing but also the Legation's opinion to the effect that there is inherent in the existing economic situation in China a decided trend toward the creation of official or officially sanctioned monopolies; that a policy of definite opposition to the creation of all monopolies would have but slight chance for success against a strong Chinese government; and that, as indicated in the Legation's telegram No. 56 of February 1, 7 p. m., it is unlikely that, with the possible exception of the British Government, the American Government would receive from other governments active support in opposing the creation of monopolies in China, the Department is inclined to agree with the Legation's suggestion that there be adopted with reference to this subject an attitude of flexibility. The Department, although desiring that the Legation continue to keep it fully informed of all developments of importance, is therefore prepared to grant to the Legation considerable latitude in deciding which cases of monopolistic control should form the subject of prompt protest to the Chinese Government. The Legation will of course bear in mind the views of the American Government in regard to all monopolies and the fact that such views are well known to the Chinese Government.

The adoption of the procedure indicated above should enable the Legation to concentrate its efforts to obtain remedial action upon those cases of treaty violation in which American interests are, or are likely to be, seriously affected. It would not, however, effect any change in the Legation's past practice of opposing actively monopoly agreements which accord to foreign interests an exclusive or preferential trade position nor prevent the Legation from opposing unreasonable restraints on international trade.

With particular reference to the antimony situation in Hunan, it is the Department's understanding that the Syndicate is unable to maintain an exclusive market; that its control is limited; that it is in serious

[84] Not printed; for pertinent portion of the note, see telegram No. 336, October 6, 1933, 3 p. m., to the Minister in China, *Foreign Relations*, 1933, vol. III, p. 597.

financial difficulties; and that it has not granted to any foreign firm, as was originally intended, monopoly rights for the sale or export of antimony. If the Department's information in this regard is correct, the Legation may deem it advisable to await developments before again referring the matter officially to the Chinese Government. On the other hand, if, as is indicated in the voluntary report prepared by the Hankow Consulate General under date April 23, 1935, and entitled "Sales Financing Activity of the Hunan Antimony Syndicate",[85] it should be ascertained that the Syndicate has in fact agreed to sell only to the Ta Chung Bank of Shanghai, or to confine its sales to any other firm or individual, Chinese or foreign, it would seem advisable that the Legation not only lodge with the Chinese Government a further protest in regard to this violation of treaty rights but also that it endeavor to cause the British Embassy to take similar action on behalf of British interests.

The Department is confident that the Legation will continue to give careful study to the development in China of commercial monopolies; that, bearing in mind the factors outlined above, the Legation will, by the use of all appropriate and practicable means, continue in its endeavors to render the maximum of assistance to American interests which may suffer in consequence of the creation of trade monopolies; and that the Legation will continue to keep the Department fully informed of all developments of importance.

Very truly yours, For the Secretary of State:
R. Walton Moore

893.6359 Antimony/21

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

No. 55 Peiping, October 25, 1935.
[Received November 18.]

Sir: I have the honor to refer to the memoranda[86] forwarded by the Legation's despatch No. 3619 of June 15, 1935, regarding the Hunan Antimony Syndicate, and to enclose for the Department's information copies of despatch No. 8825 of August 26, 1935, from the Shanghai Consulate General; the Legation's instruction of September 9, 1935, to the Consulate General in reply; and the Ambassador's memorandum of October 4, 1935, reporting a conversation with Mr. William P. Hunt of L. Everett, Incorporated.[87]

From these communications it will be observed that the Hunan Antimony Syndicate has continued its efforts to interest American capital in its enterprise, thus far without success. In this connection

---

[85] Not found in Department files.
[86] Not printed.
[87] None printed.

there is enclosed, as of possible interest to the Department, a copy of a draft contract [88] which the Hunan Antimony Syndicate has employed in an effort to obtain the support of American financial interests in an enterprise for controlling the price and supply of antimony . . . In discussing the matter with Mr. Hunt in Shanghai in July Mr. Lockhart expressed the view that the contract was monopolistic and that should Mr. Hunt and his associates become parties to it they could not expect the support of the American Government. The Embassy, however, has no information indicating that Mr. Hunt and his associates have actually entered into any contract with the Antimony Syndicate.

As will be noted from pages 3–4 of the report of the Hankow Consulate General dated October 12, 1935,[89] regarding the antimony market, however, the financial position of the Syndicate has evidently been strengthened as a result of the conditions prevailing in the market in the last quarter-year.

Respectfully yours,

For the Ambassador:
F. P. LOCKHART
Counselor of Embassy

893.6359 Wolfram Ore/40

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

No. 111

PEIPING, November 30, 1935.
[Received December 30.]

SIR: I have the honor to refer to the Department's instruction No. 1745 of September 4, 1935, regarding monopolies in China and the proposed tungsten monopoly in Kiangsi in particular, and to enclose for the information of the Department a copy of despatch No. 188 of November 16, 1935, from the Consulate General at Hankow,[88] reporting on various phases of the actual operation of the Kiangsi Tungsten Mining Bureau. It will be observed that, according to the testimony of businessmen as reported in that despatch, the Bureau in question has not yet taken any action which could be found objectionable on the ground that it constituted monopolistic interference in normal commercial relations.

Respectfully yours,

NELSON TRUSLER JOHNSON

[88] Not printed.
[89] Not found in Department files.

RESERVATION OF AMERICAN RIGHTS UNDER THE TREATIES AND THE CUSTOMS RULES OF 1868 WITH RESPECT TO ENFORCEMENT BY CHINA OF CUSTOMS PREVENTIVE REGULATIONS[91]

693.00244/14 : Telegram

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

PEIPING, January 23, 1935—3 p. m.
[Received January 23—6 : 06 a. m.]

33. Legation's 552, December 3, 11 a. m.[92]

1. The question of the enforcement of the customs preventive regulations in the International Settlement at Shanghai appears to be reaching solution whereby enforcement will be provided against non-extraterritorial foreigners and Chinese under judicial processes in a manner which will be acceptable to the Council and to the Consular Body.

2. Promulgation of the customs preventive regulations appears to the Legation to represent definite effort of the Chinese Government to abrogate the rules of 1868 [93] by unilateral action. The regulations give officers of the customs wide inquisitional and punitive powers without any judicial supervision or review. In addition to the penal provisions the Department's attention is particularly invited to articles 1 and 2 providing for the search of premises and persons without warrant, article 5 providing for seizure of property no longer in the customs custody, article 23 providing for inspection of books of importers and articles 27 and 28 providing for withdrawal of customs facilities under certain circumstances. Appeal from rulings of the Commissioner of Customs is to a Customs Penalty Board composed of officers of the Customs Administration. Regulations governing this board have now been promulgated and there is no provision for open or public hearing before a disinterested tribunal.

3. The British Minister states that the rules of 1868 have never been binding upon British subjects in China because they were never adopted by the British Government and are contrary to the established British judicial procedure in China. He cannot, therefore, reserve British rights under those rules, but he has addressed an informal letter to Wang Ching-wei [94] bringing to his attention some of the objections to the regulations raised by British shipping interests and making a general reservation of treaty rights as they may be

---

[91] For denial to American firms of the right to formal hearing under the Rules of 1868, see *Foreign Relations*, 1934, vol. III, pp. 573 ff.

[92] Not printed.

[93] *Foreign Relations*, 1868, pt. 1, p. 527.

[94] Chinese Acting Minister for Foreign Affairs.

infringed by the operation of the law. He has also requested authorization from his Government to make formal general reservations of treaty rights.

4. The French Minister is prepared to make formal reservation of all rights under the treaties and under rules of 1868.

5. The Legation does not believe that any useful purpose would be served by citing to the Foreign Office the particular provisions of the regulations which may operate as an infringement of American treaty rights. It believes, however, that we should make a formal general reservation of our rights under the treaties and under the rules of 1868 until amended by mutual agreement, and the Department's authorization to do so is requested.[95]

GAUSS

693.00244/20

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

No. 3417 PEIPING, March 8, 1935.
[Received April 8.]

SIR: I have the honor to refer to the Legation's despatch No. 3347 of February 8, 1935,[96] in regard to the new Customs Preventive Regulations, and to enclose a copy of the translation of a note dated February 25, 1935, from the Acting Minister for Foreign Affairs.[96]

The Acting Minister for Foreign Affairs reiterates the position of the Chinese Government in this matter, continuing to maintain that the Sino-American Tariff Treaty of 1928 [97] granted to China the right to impose fines on American nationals and to confiscate their property.

In view of this reiteration of the Chinese position, the Legation has deemed it desirable to reply to the Acting Minister for Foreign Affairs and affirm the Department's attitude. Accordingly, in a note dated March 8, 1935, a copy of which is enclosed,[96] the Legation has invited attention to the circumstances leading up to the establishment of the Rules of 1868, has strongly dissented from the view taken by the Chinese Government, has insisted upon the correctness of the Department's position, and has affirmed the American Government's full reservation of its rights and the rights of American nationals under the treaties and related agreements as they may be affected by the operation of the Customs Preventive Law.

[95] Department's authorization was granted in telegram No. 19, January 24, 6 p. m. (693.00244/14). On February 4, the Chargé addressed a note, No. 860, to the Chinese Acting Minister for Foreign Affairs, reserving American rights under the treaties and related agreements, as they might be affected by the operation of the Customs Preventive Regulations (693.00244/16).

[96] Not printed.

[97] Signed at Peking, July 25, 1928, *Foreign Relations*, 1928, vol. II, p. 475.

The British Legation informs me that it has received no reply to the informal letter upon this subject of the British Minister to Mr. Wang Ching-wei of January 11, 1935, a copy of which formed the second enclosure [99] to the Legation's despatch No. 3347 of February 8, 1935.

In connection with the collateral question of the enforcement of the Customs Preventive Regulations in the International Settlement at Shanghai against non-extraterritorial nationals, and Chinese, the Shanghai Consul General,[1] in a despatch to the Legation No. 8341 of February 26, 1935, copies of which were supplied directly to the Department,[99] requested authorization to give his assent to the conclusion of the proposed agreement between the Municipal Council and the Maritime Customs authorities. The Legation in an instruction in reply of March 8, 1935, a copy of which is enclosed,[99] granted the authorization requested.

Respectfully yours, NELSON TRUSLER JOHNSON

693.11245/35

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

No. 3779 PEIPING, September 7, 1935.
[Received October 5.]

SIR: I have the honor to enclose for the Department's information copies of various telegrams, despatches and instructions [2] regarding difficulties which the Dollar Steamship Company has recently had with the Chinese Maritime Customs at Shanghai.

These difficulties appear to have resulted from an attempt by the Maritime Customs authorities suddenly and without prior notice to enforce strictly manifest regulations which had previously been enforced with apparent laxity. As a result, numerous unmanifested articles found in various places on board several vessels of the Dollar Steamship Company arriving in Shanghai were confiscated by the Customs and fines were imposed upon the Company. Although no settlement of the matter has yet been possible, it has been thought desirable to report the subject to the Department.

The information gleaned from the enclosed correspondence inclined the Legation to the view that at least some of the articles confiscated were found under circumstances which might have caused a reasonable suspicion on the part of the Maritime Customs that there was an intention to smuggle them into China, and, although the vessels of other nationalities appeared not to have been subjected to similar penalties

---

[99] Not printed.
[1] Edwin S. Cunningham.
[2] None printed.

by the Customs, there was no evidence that similar conditions existed on those vessels. Accordingly, although the Legation has denied to the Chinese Government any right of the Customs to impose fines upon American vessels, it has at the same time suggested to the Consul General at Shanghai that the best interests of the steamship company would be served by viewing the matter from a practical standpoint and endeavoring to avoid the imposition of future penalties by taking steps to remove the conditions of which the Customs has complained.

In telegrams dated May 23, 4 p. m., and May 24, 3 p. m., copies of which are enclosed, the Consul General at Shanghai reported the confiscation by the Maritime Customs of various articles found in the No. 1 Boy's cabin, in the beauty parlor and in the steerage of several vessels of the Dollar Steamship Company, and in his despatches No. 8528 of May 27, 1935, and No. 8530 of May 28, 1935, copies of which are enclosed, he gave more detailed information regarding the circumstances surrounding these confiscations.

In a telegraphic instruction of May 24, 5 p. m., the Legation directed the Consul General to be guided in his action by the Legation's Circular Instruction to Consular Officers No. 229 of July 21, 1933, upon this subject, and under cover of an instruction to the Secretary of Legation at Nanking, dated May 31, 1935, a copy of which is enclosed, the Legation transmitted to Mr. Atcheson [3] an *aide-mémoire* upon the subject which it directed that he hand to an officer of the Ministry of Foreign Affairs, at which time he should endeavor to impress upon the official with whom he discussed the matter that the American Government could not under any circumstances acquiesce in any action of the Maritime Customs in contravention of the Rules of 1868 governing the joint investigation of customs controversies. Mr. Atcheson was directed at the same time to reiterate that the American Government was willing at all times to give sympathetic consideration to any revision of those rules which the Chinese Government might deem necessary.

In his despatches No. 8535 of May 31, 1935, and No. 8536 of May 31, and his telegram of June 1, 3 p. m., copies of which are enclosed, the Consul General reported his unsuccessful efforts to obtain a settlement of the difficulties with the Shanghai Customs authorities and requested that further representations be made to the National Government.

In its telegraphic instruction of June 8, 4 p. m., a copy of which is enclosed, the Legation informed Mr. Cunningham that representations had been made to the National Government, but requested further details concerning the nature of the goods confiscated and the circumstances surrounding their presence on board.

---

[3] George Atcheson, Jr., Second Secretary of Legation in China at Nanking.

In his despatch No. 708–Diplomatic of June 5, 1935, a copy of which is enclosed, Mr. Atcheson reported the result of his unsuccessful interview upon the subject at the Foreign Office, and in a memorandum dated June 10, 1935, a copy of which is enclosed, the Ministry of Foreign Affairs replied to the Legation's *aide-mémoire* re-asserting the Chinese position with regard to the right of the Maritime Customs to confiscate goods and impose fines upon American vessels.

In his further despatch No. 8557 of June 8, 1935, a copy of which is enclosed, the Consul General at Shanghai gave further details surrounding the confiscation of the various articles, and in his telegram of June 11, 1 p. m., he suggested that he be authorized to advise the Dollar Steamship Company to refuse to pay the fines which it was sought to impose upon their vessels.

In its telegraphic instruction in reply of June 12, 2 p. m., a copy of which is enclosed, the Legation informed the Consul General that it was not in a position to suggest any course of action to the shipping company, but that although the shipping interests concerned were of course under no legal obligation to pay fines imposed upon them, they might, as a matter of business expediency, prefer to pay under protest. The Legation also requested that the Consul General endeavor to clarify the question of whether the Customs was in fact discriminating against American vessels.

In his despatch in reply No. 8679 of June 15, 1935, a copy of which is enclosed, the Consul General gave further information regarding the circumstances under which the articles in question were confiscated, and in his telegram of July 8, 4 p. m., a copy of which is enclosed, he supplemented his despatch with information concerning the attitude of his colleagues towards the question, again suggesting that payment of the fines be resisted.

In its telegraphic reply of July 10, 2 p. m., a copy of which is enclosed, the Legation outlined briefly its views of the matter and directed that the Consul General call personally upon the Inspector General of Customs in an endeavor to reach some solution of the matter which would be satisfactory to both sides without prejudicing the position of the American or the Chinese Governments in respect of fundamental issues involved.

In his despatch No. 8807 of August 12, 1935, a copy of which is enclosed, the Consul General reported his action taken in compliance with the Legation's instruction mentioned just above. However, inasmuch as the Consul General's despatch indicated that he had not called upon the Inspector General of Customs, but had instead merely addressed a further written communication to him, the Legation, in an instruction of August 21, 1935, a copy of which is enclosed, directed that he explain his reasons for not calling upon the Inspector General

of Customs as directed, and expressed a desire to be informed whether any satisfactory solution of the matter had been found. A further despatch from the Consul General, No. 8827 of August 28, a copy of which is enclosed, indicated that the Consul General had in fact made oral representations as directed.

In his telegram of August 29, 2 p. m., a copy of which is enclosed, the Consul General reported information to the effect that the Customs had offered to settle with the steamship company if the company would pay two of the four fines which it was sought to impose, and requested the Legation's instructions as to the desirability of the company settling the matter on that basis.

The Legation has replied in a telegram of August 31, 12 noon, a copy of which is enclosed, to the effect that it cannot advise the company in any arrangement it may deem it advisable to reach with the Customs, but that practical considerations and business expediency might persuade the company to settle the case by compromise. It was also suggested that further representations might result in further concessions to the company.[5]

Respectfully yours, NELSON TRUSLER JOHNSON

ATTITUDE OF THE AMERICAN LEGATION WITH RESPECT TO THE POSITION OF AMERICANS IN THE CHINESE MARITIME CUSTOMS SERVICE

693.002/187

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

No. 1612 WASHINGTON, March 25, 1935.

SIR: Referring to despatches Nos. 18 and 21 of February 2 and 9, 1935, respectively, from the American Consulate at Tsingtao,[6] copies of which were, according to notations contained thereon, forwarded to the Legation, on the subject of the position of Americans in the Chinese Maritime Customs Service, the Department desires that the Legation submit a report giving its views in regard to the above matter in the light of the statements contained in these despatches.

Very truly yours, For the Secretary of State:
WILLIAM PHILLIPS

---

[5] The Consul General at Shanghai, in his despatch No. 10347, October 2, reported that the matter had been settled to the mutual satisfaction of the company and the Chinese Government (693.11245/37).

[6] Neither printed.

693.002/188

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

No. 3604 PEIPING, June 7, 1935.
[Received June 29.]

SIR: I have the honor to acknowledge the receipt of the Department's instruction No. 1612 of March 25, 1935, on the subject of the position of Americans in the Chinese Maritime Customs Service.

As the Minister was in Nanking at the time the Department's instruction was received by the Legation, it seemed appropriate to refer it to him for comment. There are quoted below, for the Department's information, pertinent paragraphs in a letter dated May 4, 1935, from the Minister.

"In replying to the Department's instruction you may quote me as saying that, in view of our past policy of non-interference in such matters and in view of present tendencies in the situation as regards China's relations with the Powers that have indicated a desire to influence such appointments, by force perhaps, if necessary, it would do us little good to start something which we may not be able to finish.

"This applies particularly to the question of insisting that the Chinese employ Americans in the senior positions because of the favorable position which we now enjoy in China's trade. I see no objection to seconding the entry of additional Americans into the Maritime Customs Service, but I do not know how the Customs recruits its service nor do I know how we could proceed to second any particular group of Americans who might desire to apply for such an appointment. I believe that this has usually been done through the representative of the Customs resident in London."

The Department will note, from the above excerpt, that Mr. Johnson is of the opinion that, in view of our past policy of non-interference in such matters and in view of present tendencies in the situation as regards China's relations with the Powers that have indicated a desire to influence such appointments, it would do us little good "to start something which we might not be able to finish."

In addition to the above comment, the Department might wish to give consideration to the fact that a change of policy which would open the way for the Department to interest itself in the personnel of the Chinese Maritime Customs might also lead to overtures being made for Government assistance by the American personnel in other branches of the Chinese Government Service, such as the Salt Gabelle and Aviation. The Legation believes that the present is a particularly inopportune time to make any substantial change in the present policy of the Department in such matters.

Respectfully yours, For the Minister:
F. P. LOCKHART
Counselor of Legation

RESERVATION OF AMERICAN RIGHTS IN PROPOSED CHANGES FOR CONTROL OF PILOTAGE AT SHANGHAI[7]

893.825/76

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

No. 3421 PEIPING, March 7, 1935.
[Received April 8.]

SIR: I have the honor to refer to the Legation's despatch No. 3232 of January 4, 1935,[8] concerning the efforts of the Chinese Government to establish a new pilotage authority, and to report subsequent developments.

In his despatch to the Legation No. 8242 of January 16, 1935, a copy of which is enclosed,[8] the Consul General at Shanghai[9] expressed the opinion that the shipping of the port of Shanghai would be greatly handicapped unless certain vacancies which had occurred among the members of the Pilots' Association were filled without delay.

Accordingly, the Legation directed the Counselor at Nanking[10] to call upon an appropriate official of the Foreign Office or the Ministry of Finance as he deemed best and express the serious concern of the Legation over this situation which there was every reason to believe would greatly handicap and jeopardize shipping at Shanghai. A copy of the Legation's telegram of January 22, 12 noon, to the Counselor, together with a copy of the memorandum of a conversation between an officer of this Legation and an officer of the British Legation is enclosed.[11]

In his despatch No. 579–Diplomatic of January 24, 1935, a copy of which is enclosed,[8] the Counselor of Legation at Nanking reported having interviewed Dr. Louis N. Tchou, Director of the Department of International Affairs of the Foreign Office, with regard to this situation and having obtained Dr. Tchou's agreement to press the matter as far as possible with the Director General of Customs.

There are also enclosed copies of the Shanghai Consul General's despatch to the Legation No. 8275 of February 1, 1935, his telegram of February 9, 12 noon, the Legation's telegraphic instruction of February 12, 12 noon, to the Counselor at Nanking, and the Counselor's reply of February 13, 5 p. m.[12] The Consul General's despatch and the subsequent exchanges of telegrams represent further efforts to obtain action by the Chinese authorities towards filling the va-

---

[7] Continued from *Foreign Relations*, 1934, vol. III, pp. 591–606.
[8] Not printed.
[9] Edwin S. Cunningham.
[10] Willys R. Peck.
[11] Neither printed.
[12] None printed.

cancies which had occurred among the members of the Pilots' Association. The Department will note that the Legation has expressed the hope that in accordance with the "quota system" of appointing apprentice pilots, which it is understood has hitherto been in practice at Shanghai, at least one of the appointees will be an American citizen.

With his further despatch to the Legation No. 8343 of February 28, 1935, a copy of which is enclosed,[14] the Consul General at Shanghai enclosed a copy of an informal and personal letter which the Inspector General of Customs had addressed to the primarily interested consuls general suggesting a compromise procedure for effecting the appointment of apprentices to fill the vacancies in the Pilots' Association.

The procedure suggested by the Inspector General is as follows:

"This proposed arrangement is that the Harbour Master—having previously made sure that the candidates are both physically and professionally fit as well as acceptable to the Association—should issue letters of appointment on the usual form. The candidates should then present these letters of appointment to the Association, and the Association, if it considered such action necessary, could obviously, on their own initiative, ask the Consular Body for its approval in accepting these candidates."

Although this procedure appears to be an endeavor to accomplish informally what is provided formally under the old established procedure, the Consular Body at Shanghai took exception thereto and was of the opinion that, while no objection would be raised to the appointment of Chinese apprentice pilots should that be the desire of the Chinese authorities, insistence should be made upon their appointment under the established procedure which is based upon the Pilotage Regulations of 1868.[15] Mr. Cunningham requested the Legation's authorization to join his colleagues in a reply to that effect by the Senior Consul to the Inspector General of Customs.

In a telegraphic instruction of March 5, 2 p. m., the Legation granted the authorization requested, and, in a telegram of March 5, 3 p. m., a copy of which is enclosed,[14] it directed the Counselor at Nanking to call at the Foreign Office and verbally urge that appointments be made in accordance with the established practice. The Counselor was also directed to draw attention to the fact that the American Government has been extremely reasonable in meeting the Chinese desires in this matter and to express the Legation's hope

---

[14] Not printed.

[15] William F. Mayers (ed.), *Treaties Between the Empire of China and Foreign Powers, Together With Regulations for the Conduct of Foreign Trade* (Shanghai, 1877), p. 219.

that the Chinese will on their part refrain from disturbing the *status quo* by such subterfuges as that embodied in the suggestion of the Inspector General of Customs. At the same time he was directed to point out that until the other interested nations have been brought into line the Legation must insist on the appointment of apprentices under the old regulations.

I have been informed that the British Legation has issued similar instructions to its representative at Nanking.

As of incidental interest there is enclosed a copy of despatch No. 50 of January 15, 1935, from the Consul at Swatow,[16] with which is enclosed a copy of "General Regulations and Local Rules for the Port of Swatow."

Further developments will be reported.

Respectfully yours, NELSON TRUSLER JOHNSON

893.825/77

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

No. 3505 PEIPING, April 12, 1935.
[Received May 4.]

SIR: I have the honor to refer to the Legation's despatch No. 3421/76 of March 7, 1935, concerning the efforts of the Chinese Government to establish a new pilotage authority, and to report subsequent developments.

The Department will recall that the American and British Legations have submitted to the Chinese authorities the text of revised pilotage regulations which under certain conditions will be acceptable to them, and that the question of most importance at the present time has been the refusal of the Chinese authorities to agree to the appointment under the established practice of apprentice pilots to fill vacancies which have recently occurred among the members of the Pilots' Association.

In his despatch to the Legation No. 651–Diplomatic of March 13, 1935, a copy of which is enclosed,[16] the Counselor at Nanking reported the result of a further interview upon this subject with Dr. Tchou, Director of the Department of International Affairs of the Ministry of Foreign Affairs, from which it would appear that the Chinese have found it almost impossible to come to any agreement with the Japanese on the subject of the revised pilotage regulations, but that Dr. Tchou promised to convey the Legation's views regarding the appointment of apprentice pilots to the Director General of Customs.

In his telegram to the Legation of March 21, 4 p. m., the Consul

[16] Not printed.

General at Shanghai reported that he had been verbally informed by the Inspector General of Customs that authorization had been obtained to fill the vacancies in the Pilots' Association in accordance with the regulations of 1868, and, in his telegram of March 22, 4 p. m., the Consul General reported the receipt of an informal and confidential letter from the Inspector General to the effect that the Chinese Government had instructed him to say that "in view of the emergency they will raise no objection to the proposed procedure of appointment on the understanding that such acquiescence is without prejudice to the Chinese Government's previously declared attitude on this pilotage question". Copies of these two telegrams are enclosed.[19]

As Mr. Cunningham appeared to desire the Legation's instructions as to whether he should accept this *démarche* by the Inspector General as regular, the Legation, in an instruction of March 23, 11 a. m., a copy of which is enclosed,[20] expressed its desire that the vacancies be filled in accordance with the established practice until the regulations have been modified by mutual agreement, and authorized Mr. Cunningham to acquiesce in the appointment of the three Chinese candidates provided they were to be appointed in accordance with that practice. Mr. Cunningham was also authorized, in the event that additional apprentices were to be appointed, to urge that one be an American if an American candidate were available.

In his despatch in reply, No. 8417, of April 6, 1935, a copy of which is enclosed,[20] Mr. Cunningham reports subsequent developments which indicate that three Chinese candidates will be appointed under the established practice to fill the present vacancies, and that the next two vacancies occurring will be filled by foreigners, one of whom will be American and one Japanese.

Respectfully yours, NELSON TRUSLER JOHNSON

INTEREST OF THE UNITED STATES IN THE QUESTION OF CHINESE DISINCLINATION TO GRANT FOREIGN REQUESTS TO ESTABLISH CIVIL AVIATION OR TO ATTAIN LANDING RIGHTS IN CHINA

893.796/200 : Telegram

The Second Secretary of Legation in China (Atcheson) to the Secretary of State

NANKING, April 29, 1935—10 a. m.
[Received April 29—5 : 50 a. m.]

85. I am reliably informed that within past 3 days a meeting of representatives of the Foreign Office, the Ministry of Communications

---

[19] Neither printed.
[20] Not printed.

and the Military Affairs Commission called to discuss questions of possible cooperation by China in development of overseas transportation, decided Chinese Government would not for the present grant landing rights to any foreign aviation concerns because of fear that concessions to western airline companies would make it impossible to refuse similar requests from Japanese.

ATCHESON

893.796/207a : Telegram

The Secretary of State to the Second Secretary of Legation in China (Atcheson), at Nanking

WASHINGTON, July 9, 1935—6 p. m.

58. Your 85, April 29, 10 a. m. Press item under Shanghai date line of July 2 reports Military Attaché of Japanese Embassy in China as stating that one of the secret clauses of the Tangku truce [21] granted to Japan the right to "establish civil aviation in China."

Press item of July 6 reports Chinese Consulate General at New York as stating, with reference to above report, "Concerning this report, this Consulate General has received government instructions to declare that there is no secret provision or clause whatsoever in the Tangku Truce Agreement. Nor is it a fact that the Chinese Government has ever granted to Japan the permission to establish civil aviation in China."

Department desires that Legation continue to follow closely and to report promptly aviation developments in China with particular reference to possible effects on American interests.

Inform Peiping.

HULL

893.796/208 : Telegram

The Second Secretary of Legation in China (Atcheson) to the Secretary of State

NANKING, July 12, 1935—noon.
[Received 3 : 59 p. m.]

206. Department telegram No. 58, July 9, 6 p. m. which was repeated to Legation.

1. The competent Chinese officials in Nanking have consistently denied the existence of any secret clauses in the Tangku truce agreement although the stories concerning the agreement which have circulated have had a wide range, one even crediting the agreement

[21] For the Tangku Truce Agreement between the Chinese and Japanese military authorities, signed at Tangku May 31, 1933, see *Foreign Relations*, Japan, 1931–1941, vol. I, p. 120.

with having contained general provisions on which were based the Japanese program for a *rapprochement* and for economic cooperation begun in January last.[23] It is my opinion from discussions among and by Chinese which I have heard that if the agreement contained any secret clauses those clauses concerned the restoration of through rail traffic between Peiping and Mukden, the restoration of postal facilities between Manchuria and China proper, the setting up of Chinese customs stations along the Great Wall and possibly the establishment of radio telephone communication between intra- and extra-mural China and the establishment of a commercial aviation line between Mukden, Peiping and Hsinking.

2. I am reliably informed that the Japanese have actually asked for the establishment of the commercial aviation service just mentioned but that they have not pressed for landing rights on the China coast for a direct air service from Japan [;] as [*sic*] it was found that such request would be made which, according to my information, caused the decision mentioned in my 85 April 29, 10 a. m., the Chinese hoping to forestall a probable Japanese request by deciding to refuse American or other foreign requests for landing rights.

3. I am authoritatively informed the Chinese Ministry of Military Administration is planning the establishment of an airplane factory at Nanchang with Italian assistance and reliably informed that the funds therefor are to be allocated out of Italian Boxer indemnity remittances and that the machine tools and other mechanical equipment will come from Italy. I am also reliably informed that construction work on this project is being postponed for the time being because of a fear of Japanese objections.

ATCHESON

RE-REGISTRATION OF TITLE DEEDS TO REAL PROPERTY OF AMERICANS IN CHINA[24]

893.52/330

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

No. 3282 PEIPING, January 18, 1935.
[Received February 9.]

SIR: With reference to the last paragraph of the Legation's despatch No. 3135 of November 15, 1934,[25] on the subject of the reregistration of land titles at Nanking, in which the Legation stated that another despatch on the subject of the imposition of a land rent tax

---

[23] See also pp. 16–33, *passim*.
[24] Continued from *Foreign Relations*, 1934, vol. III, pp. 617–618.
[25] Not printed.

at Nanking, reported as being separate and distinct from the matter of reregistration of title deeds, was in the course of preparation, I have the honor to enclose copies [26] of the following correspondence on the subject:

1. Despatch No. 691 of October 31, 1934, from the Consulate General at Nanking.
2. Legation's instruction of November 30, 1934, to the Consulate General at Nanking, and
3. Despatch No. 716 of December 29, 1934, from the Consulate General at Nanking.

It appears from the information supplied by the Consulate General at Nanking that foreigners in Nanking have not since the revolution of 1911 paid land taxes of any kind. It appears also that no mention is made of payment of land taxes in title deeds issued to foreigners at Nanking, nor have Chinese paid such land taxes except on agricultural lands.

The question for the time being of the payment by American land owners of land taxes at Nanking has, it is believed, been amply covered by the Legation's instruction of December 31, 1934, a copy of which was sent to the Department under cover of the Legation's despatch No. 3243 of January 7, 1935.[27] The Department will recall that in that despatch the Legation stated *inter alia* that, with reference to the suggestion that it might be advantageous to American missionary societies (who are the largest American land owners in Nanking) to hold their property under a strict lease status in the expectation that they might thus avoid payment of land value taxes, the Legation does not anticipate that any such exemption from land value taxes can be claimed under existing treaties or Chinese legislation; that it has generally been held that holders of perpetual leases are liable for the payment of the Government land tax; that it is believed that provision to this effect has sometimes been included in the perpetual leases or in the official certificates annexed to such leases when they are sealed by the Chinese authorities; that the substitution of a land value tax (tax based on the value of the land) for a land tax based on the area of the land, would not seem to alter the liability of the holder of the perpetual lease for the payment of Government taxes on the land held under such leases; but that if the original deeds of perpetual lease fixed the amount of the Government tax which must be paid on the land and provided that there shall be no increase thereof during the term of the perpetual lease, there might be ground for protesting the substitution of a land value tax in excess of the Government tax prescribed in the perpetual lease.

---

[26] Not printed.
[27] Neither printed.

A copy of the Legation's instruction of today's date to the Consul General at Nanking on the subject is enclosed.[31]

Respectfully yours, C. E. GAUSS

893.52/335

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

No. 3318 PEIPING, January 31, 1935.
[Received February 25.]

SIR: With reference to the Legation's despatch No. 3138 of November 16, 1934,[31] on the subject of the registration of land titles at Hankow, I have the honor to enclose a copy of despatch No. 18 of January 18, 1935, from the Consul General at Hankow,[31] in which he recommends that in view of the attitude taken by the British and other consular authorities at Hankow he be authorized to intimate to American property holders that there is now no particular objection to their proceeding to reregister their title deeds.

In its reply to Mr. Josselyn dated January 26, 1935, a copy of which is enclosed,[31] the Legation stated that it was pleased to learn that the British Consulate General had obtained assurances from the Chinese authorities that no attempt would be made, in the case of British owners, to impose penalties in the form of fines or confiscation for delay in reregistration, and stated that if he could obtain similar assurances the Legation could see no objection to his advising the American property holders to comply voluntarily with the present procedure for reregistration.

The Legation has requested the Consul General at Hankow to keep it informed regarding developments in the matter.

Respectfully yours, C. E. GAUSS

893.52/338

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

No. 3340 PEIPING, February 6, 1935.
[Received March 11.]

SIR: I have the honor to refer to the Legation's despatch No. 3282 of January 18, 1935, on the subject of the reregistration of land titles at Nanking, and to enclose a copy of despatch No. 739 of January 29, 1935, from the Consulate General at Nanking [31] reporting further developments in the matter. There is also enclosed a copy of the Legation's instruction of today's date in reply.[31]

[31] Not printed.

The Department will note that the American missions have received fairly satisfactory assurances from the Municipal Government in regard to the points at issue, and that the Legation has instructed Mr. Peck [32] that, should the new land certificates which he states are now in the course of revision, contain any restrictions inimical to existing property rights he should immediately file a protest with the Municipal Government and reserve treaty rights for the American missions concerned.

Respectfully yours, C. E. GAUSS

893.52/339

The Consul General at Hankow (Josselyn) to the Chargé in China (Gauss) [33]

L. No. 35 HANKOW, February 6, 1935.

SIR: I have the honor to acknowledge the receipt of the Legation's instructions of January 17 and January 26 on the subject of the re-registration of land in the ex-Russian and ex-German Concessions as well as the general subject of land re-registration in the Hankow area.

In accordance with the suggestion contained in the Legation's instruction of January 26, I called on Mayor K. C. Wu on February 1 and requested him to waive the question of fines and other penalties for delay in the case of American landholders who voluntarily applied for re-registration of their property. I stated that I understood this had been done in the case of other nationals. The Mayor replied that he was willing to do so and that if I would write him, making the request, he would issue the necessary instructions. A memorandum of the conversation is attached hereto.[34]

I have accordingly written to the Mayor and a copy of my letter, dated February 6, 1935, is enclosed herewith.[34] I do not believe, however, that I will receive a written assurance from him that fines, etc., will be waived, as I was told by the Acting British Consul General that the Mayor would not give such an assurance in writing.

There is enclosed herewith a copy of a letter [34] which is being sent to American landholders in the ex-Russian and ex-German Concessions so far as the records of this office show them to be.

Respectfully yours, P. R. JOSSELYN

---

[32] Willys R. Peck, Counselor of Legation in China and Consul General at Nanking.

[33] Copy transmitted to the Department by the Chargé in China in his despatch No. 3355, February 12; received March 11.

[34] Not printed.

893.52/340

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

No. 3379 PEIPING, February 20, 1935.
[Received March 23.]

SIR: With reference to the Legation's despatches No. 3355 of February 12, 1935,[36] and No. 3357 of February 13, 1935,[37] and previous despatches on the subject of the reregistration of land titles at Hankow, I have the honor to enclose a copy of despatch No. 45 of February 12, 1935,[37] from the Consul General at Hankow, in which he reports with regard to the assurances received from the Mayor in the matter and requests approval of a proposed communication to be sent to American land holders. The Legation, in a naval radio dated February 18, 12 noon, approved Consul General Josselyn's draft of the proposed communication with the addition of a sentence to the effect that attempts to impose penalties should be promptly reported to the Consulate General by the interested Americans. A copy of that telegram and of the Legation's instruction of today's date to the Consulate General at Hankow are enclosed [38] for the Department's information.

Respectfully yours, For the Minister:
C. E. GAUSS
Counselor of Legation

393.1163 Property/112

The American Consul at Tsinan (Stevens) to the Mayor of Tsinan (Wen Ch'eng-lieh) [39]

TSINAN, March 19, 1935.

SIR: I have the honor to acknowledge the receipt of your letter of March 14, 1935, requesting the surrender of title deeds to land held by the Shantung Mission of Seventh Day Adventists, an American missionary society.

The record of correspondence which has passed between the Tsinan municipal authorities and this consulate during the last twelve or thirteen years on the subject of the reregistration of land titles and the application of certain confiscatory provisions of the Shangpu Regulation [40] to American property at Tsinan, should have made it

---

[36] See footnote 33, p. 805.
[37] Not printed.
[38] Neither printed.
[39] Copy transmitted to the Department by the Consul at Tsinan in his despatch No. 98, March 20; received April 15.
[40] "Shangpu" signified a mart or settlement open to foreign residence and trade. For the regulations, see subenclosure to despatch No. 1831, March 9, 1905, from the Chargé in China, *Foreign Relations*, 1905, p. 161.

clear to the Finance Officer of the Tsinan Municipal Government that this consulate is not disposed to advise American owners to surrender their title deeds for purposes of revenue and possible expropriation.

The Shantung Mission of Seventh Day Adventists, in the proper exercise of a treaty right, acquired a perpetual lease to land which at the time (1917) was situated outside of the Shangpu area. In 1918, the Shangpu area was extended so as to include the land owned by this mission. It now appears to be the intention of the Finance Officer of this municipality to deprive the mission of its perpetual lease and to force the mission to pay a heavy fee and accept in lieu of its perpetual lease a Shangpu lease which limits the period of ownership in the property to thirty years.

In this connection, your attention is respectfully invited to the stipulations of Article XIV of the Sino-American Treaty of 1903,[41] which authorize American missionary societies to lease in perpetuity land in all parts of China; and it behooves me to point out that provisions of the Shangpu Regulation which disregard or have the effect of annulling Sino-American treaty stipulations have never been recognized by the American Government as binding upon American citizens or institutions.

In view of the foregoing explanation of the case, it is requested that you be so kind as to call the Finance Officer's attention to the treaty stipulations mentioned above and instruct him to discontinue his efforts to upset the American mission's established right to possess in perpetuity land in this part of China.

I have [etc.] H. E. STEVENS

393.1163 Property/116

The Mayor of Tsinan (Wen Ch'eng-lieh) to the American Consul at Tsinan (Stevens)[42]

TSINAN, April 3, 1935.

SIR: I have the honor to acknowledge the receipt of your letter of March 19, 1935, regarding the procrastination in the surrender of deed for examination by the Shantung Mission of the Seventh Day Adventists, an American mission society. You stated in the letter that inasmuch as the Mission, in the proper exercise of a treaty right, acquired a perpetual lease to the land, you are not disposed to advise them to surrender their deed for examination. You also called my attention to the Sino-American treaty stipulations and requested me to instruct the Financial Officer of the Tsinan Municipal Government to discontinue his efforts to interfere with the Mission.

---

[41] *Foreign Relations*, 1903, p. 91.

[42] Copy transmitted to the Department by the Minister in China in his despatch No. 3614, June 12, p. 813.

In reply, I have the honor to inform you that, since the prescription of the Shangpu Regulation following the establishment of the Shangpu area, both Chinese and foreigners have unanimously complied with the regulation. Heretofore, in accordance with the provisions of the Shangpu Regulation and in view of the requirement of both Chinese and foreigners, the Shangpu area was extended so as to include the places north to Kan Shih Ch'iao, east and west to the First Cross Road, and outside of the Lin Hsiang Gate. The landowners in this area have, complying with the regulation, exchanged their title deeds for leases and started to pay the rent. The Shantung Mission of the Seventh Day Adventists, however, have never submitted their deed for examination. Whether or not the land leased by the Mission is of a perpetual lease is another question, but since the land is Chinese territory and has been included in the Shangpu area, it behooves this office, with a view to exercising Chinese sovereignty and administering municipal government, to advise the Mission to submit their deed for examination in accordance with the regulation.

With reference to the Sino-American treaty mentioned in your letter, your attention is respectfully invited to the fact that the international situation is not the same as heretofore. During the eleventh year of the Chinese Republic (1922), the United States convoked the Washington Conference, at which the Nine Power Pact[43] was contracted on the principle that Chinese sovereignty and administrative integrity should be respected. Consequently, any treaty which may be contradictory to the principle should, considering all things, be changed so as to meet with the situation.

Furthermore, according to the Shangpu Regulation, the term of lease is thirty years, on the expiration of which it is permitted to renew the lease. As soon as the term expires the second time, the land will be revoked according to a price justly estimated by an independent party, in case the Government is in need of the land; otherwise, it is still permitted to renew the lease. In view of the foregoing procedure, the Government has apparently had regard to the property right of landowners.

As in duty bound, I have the honor to send you this reply with the request that, for the sake of facilitating municipal administration and consolidating our cordial relations, you be so good as to instruct the Shantung Mission of the Seventh Day Adventists to submit their deed for examination at their earliest convenience to the Financial Office of the Tsinan Municipal Government, so that the office may take appropriate action in accordance with the regulation.

It is requested that this office be favored with a reply.

WEN CH'ENG-LIEH

[43] Treaty signed at Washington, February 6, 1922, *Foreign Relations*, 1922, vol. I, p. 276.

893.52/346

The Minister in China (Johnson) to the Consul General at Canton (Spiker) [44]

PEIPING, April 18, 1935—2 p. m.

Legation perceives no objection to American property holders voluntarily registering title deeds in the manner described in your despatch No. 17, April 4, provided no restrictions are placed on their treaty rights to acquire, and dispose of, leases in perpetuity at Canton. Legation desires you to obtain as soon as possible and forward by air mail with your comments copy of Chinese text and English translation of deed form to be issued under the new procedure.

British Legation states it is prepared to acquiesce in proposed reregistration at the same time reiterating its position that valid title deeds must be recognized and insisting upon the right of British subjects freely to transfer title deeds.

JOHNSON

893.52/351

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

No. 3557 PEIPING, May 10, 1935.
[Received June 1.]

SIR: I have the honor to refer to the Legation's despatch No. 3340 of February 6, 1935, on the subject of the reregistration of land titles at Nanking, and to enclose copies [45] of despatches No. 673 of March 28, 1935 and No. 693 of April 26, 1935, from the Nanking office of the Legation, together with the Legation's instruction of April 3, 1935, and a copy of a letter dated May 3, 1935, from Minister Johnson, now at Nanking, to the Counselor of Legation at Peiping.

With despatch No. 673 Counselor Peck enclosed a copy of the new lease agreement which the Nanking Municipality proposes to issue to foreign holders of perpetual leases. Since the lease agreement contained decidedly unsatisfactory provisions, particularly in that it provided that leaseholders would have to forego unearned increment due to increased value and would apparently have to dispose of the property to or with the consent of the Chinese Government and was thus not in conformity with assurances previously given that American missions would receive titles in all respects the equivalent of those now held (see despatch No. 3340, February 6, 1935), the Legation instructed the Consulate General at Nanking that the new

---

[44] Copy transmitted to the Department by the Minister in China in his despatch No. 3526, April 20; received May 18.

[45] None printed.

deed form was unsatisfactory and stated that it would appear desirable for American missions to delay the completion of the registration of their title deeds until the essential points involved had been agreed to and the deed forms approved by the Department.

Upon the Minister's arrival in Nanking later in April he took up the matter of the reregistration of title deeds with the interested Americans and then authorized Second Secretary Atcheson to address a formal note to the Ministry of Foreign Affairs in the matter, as described in Nanking's despatch No. 693 of April 26, 1935.

The unsatisfactory elements of the new lease agreement are a serious threat to American property rights in Nanking as defined in the treaties. In view of the situation which has developed at Nanking, which may be taken as representative of the general attitude of the Chinese Government towards the question of ownership of property in China by foreign missionary societies, the Department's definition of the rights possessed by an American mission holding land leased in perpetuity under Article XIV of the Sino-American Treaty of 1903 is respectfully requested.

The essential part of the treaty provision would appear to be as follows:

"Missionary societies of the United States shall be permitted to rent and to lease in perpetuity, as the property of such societies, buildings or lands in all parts of the Empire for missionary purposes . . ."

Thus, in contrast to rights granted to ordinary American citizens not engaged in missionary work, who may lease in perpetuity only within the limits of areas opened for trade and residence, American missionary societies may lease in perpetuity wheresoever they will in China for missionary purposes.

Some years ago the Chinese Government took cognizance of the statement in this article of the treaty that the right to rent and lease had been granted to missionary societies and not to missionaries as individuals and began to insert in the deeds, at least with the tacit approval of the United States Government, phrases such as "kung ch'an", "common property", to indicate that the property so leased was leased by a society for the use of the society and not by an individual.

The Government of the Municipality of Nanking (acting presumably with the knowledge and consent of the Central Government since the regulations under which reregistration of land titles is being conducted received the approval of the Central authorities) comes now to limit more narrowly the right of the missions under this provision of the treaty. In fact, it would appear that this provision of the treaty gives the missionary societies no right whatsoever beyond a perpetual

lease to use the property for the common purposes of the society and that, if and when the missionary society no longer desires to use the said land for the common purposes of the mission, then it must sell its right back to the Municipality representing the lord of the soil, receiving for that right merely the original price paid by the society for the land.

There is nothing in the treaty which limits the price which the missionary society has to pay to the original owner and presumably there is nothing in the treaty that limits the missionary society's right to the purchase of land from the Chinese Government as the lord of the soil rather than an individual owner. There has been no evidence in practice attendant upon the sale of land to missionary societies by Chinese owners indicating that the Chinese Government did not wish the Chinese owner of the land to enjoy any profit that he might make over and above the price at which he had originally purchased the land, through sale to an American missionary society. It would seem that with such limitations as the treaty does put upon the missionary society's use of the land it is not estopped from disposing of its property to a Chinese citizen at any price that it may be able to get; in other words, it is not estopped from enjoying unearned increment arising out of local improvements. It therefore seemed essential that a further note be addressed to the Ministry of Foreign Affairs, as was done under date of April 26, 1935, reserving to American missionary societies all such rights in connection with transfers of land within the Municipality of Nanking. In view of the apparent intent of the Municipality of Nanking to interpret narrowly the wording of Article XIV of the Treaty of 1903, the Legation will appreciate receiving the Department's instruction on the points raised by the Nanking Municipality as described herein.

Respectfully yours,

For the Minister:
F. P. LOCKHART
Counselor of Legation

893.52/356

The American Consul General at Canton (Spiker) to the Mayor of Canton (Liu)[46]

[CANTON,] May 20, 1935.

SIR: I have the honor to inform you that this office recently addressed a despatch to the American Minister at Peiping informing him of the conversations which took place between ourselves and the British

[46] Copy, an enclosure to despatch No. 31, May 28, from the Consul General at Canton to the Minister in China, transmitted to the Department without covering despatch; received June 29.

Consul General in January regarding the difficulties which foreigners, holding land on perpetual lease in the Canton Municipal Area, had experienced for some time. At the same time, I reported the tentative agreement reached in these conversations and the subsequent opening of the Office of the Commissioner for the Investigation of Land Leased in Perpetuity in the Canton Municipal Area.

The American Minister has addressed a reply to this office and has stated that leases in perpetuity issued to American citizens should contain no statements nor have attached to them any annexes which would serve to restrict the treaty rights of American citizens in relation to the leasing in perpetuity of land and other property. In view of this despatch from the American Minister, I have the honor to request that you will give me an official assurance that no rubber stamps setting forth the provisions of Article 55 and/or Article 56 of the Kwangtung Land Deed Regulations or similar restrictive provisions will be placed on the deeds issued by, or applied for through, the Office of the Commissioner for the Investigation of Land Leased in Perpetuity in the Canton Municipal Area. As Your Honor is aware, the American Government takes strong exception to such provisions, owing to the restrictions which they impose on the free transfer of land held by American citizens. Furthermore, such an endorsement would not be in accord with the agreement arrived at in personal conversation between ourselves and the British Consul General, which agreement was of course reported by me to the American Minister. In view of the advanced stage of the matter at present, I am sure Your Honor will appreciate the desirability of having that agreement placed on a formal basis. In the interest of the good relations subsisting between our two Governments and in order that I may be able to inform the American Minister that satisfactory official assurances have been received in relation to this point, I have the honor to request that you inform me officially that no reference to Article 55 and/or Article 56 will be attached to these deeds.

There is one further point to which I have the honor to call your attention: In the local title deed it is laid down that on the sealing of the deeds a tax of $6 for every $100 of the value of the property shall be collected. This does not coincide with the schedule of fees approved by the Provincial authorities for the land bureau in Shameen. In that schedule the tax is fixed at $4 for every $100 of value. In order to avoid possible future misunderstandings because of this discrepancy as to the rate of tax, I shall appreciate your official assurances that the payment of the 4% tax, as fixed by the regulations governing the Shameen Office of the Commissioner for the Investigation of Land Leased in Perpetuity, shall be of the same effect as the payment of the 6% tax mentioned in the deed form.

In conclusion, while on this subject, I take the opportunity to invite your attention to the fact that the deed form, which has been supplied to the Office of the Commissioner for the Investigation of Land Leased in Perpetuity in the Canton Municipality, contains the following words:

"But outside of treaty ports the treaties make no provision for permission to purchase private property inland and the sealing of such deeds will not be permitted."

In view of the fact that the treaties provide that missionary societies shall be permitted to rent and to lease in perpetuity as the property of such societies buildings or land in all parts of China for missionary purposes, it is of course understood that the above quoted stipulation in the present deed form concerning the purchase of private property in the interior refers only to the acquisition of land in the interior by parties other than missionary societies and for other than missionary purposes.

I have the honor to request that Your Honor will be good enough to reply so soon as you conveniently can, since the matter is somewhat urgent.

I have [etc.] C. J. SPIKER

393.1163 Property/116

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

No. 3614 PEIPING, June 12, 1935.
[Received July 13.]

SIR: I have the honor to refer to the Legation's despatch No. 3294 of January 21, 1935,[47] concerning the reregistration of land titles at Tsinan, and to enclose for the Department's records a copy of despatch No. 146 of June 4, 1935,[47] from Consul Stevens, containing a report of subsequent developments in the matter.

Although it will be noted that the Land Bureau at Tsinan continues to request that the Seventh Day Adventist Mission be instructed to present its title deed to land in the Commercial Port Area for examination, Consul Stevens states in his latest despatch that the Mayor of Tsinan has orally informed him of his decision to drop the matter for the time being.

In order to complete the record there is also enclosed a copy of the Legation's instruction of today's date to the Consul at Tsinan.[48]

Respectfully yours, NELSON TRUSLER JOHNSON

---

[47] Not printed.

[48] The Minister stated therein that he was gratified to learn that the Mayor of Tsinan had decided to drop the matter for the time being.

893.52/357 : Telegram

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

PEIPING, July 3, 1935—3 p.m.
[Received July 3—6:47 a.m.]

334. Reference Canton's despatch to the Legation No. 32 [*31*], May 28, 1935 (copy sent direct to the Department)[50] concerning temporary arrangement for stamping deeds at Canton. In view of reservations made by Consulate General, Legation perceives no objection to form of lease enclosed [in] that despatch and requests authorization to instruct Canton that there would appear to be no objection to Americans accepting such documents provided they do so voluntarily.[51]

JOHNSON

893.52/366

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

No. 3750 PEIPING, August 16, 1935.
[Received September 7.]

SIR: I have the honor to refer to despatch No. 32 [*31*] of May 28, 1935, from the Consulate General at Canton to the Legation (a copy of which was sent directly to the Department),[50] with which was enclosed a copy of a letter addressed by the Consulate General to the Mayor of Canton making certain reservations in regard to the registration of title deeds with the special land office recently opened on Shameen for that purpose, and to enclose for the completion of the Department's records a copy of despatch No. 47 of July 24, 1935, from the Consulate General at Canton, with which there is enclosed a copy of the Mayor's reply to the Consulate General's reservations above mentioned.[52]

In view of the Mayor's reply, which is much more satisfactory than could have been hoped for, the Legation in a telegram dated August 3, 3 p.m., a copy of which is enclosed,[53] authorized the Consulate General no longer to discourage American land owners who may wish voluntarily to present their deeds for registration.

Respectfully yours, NELSON TRUSLER JOHNSON

---

[50] Not printed; for enclosure, see letter from the Consul General at Canton to the Mayor of Canton, p. 811.

[51] The Department replied by telegram No. 200, July 6, 2 p. m., approving the instruction to Canton.

[52] Neither printed.

[53] Not printed.

ATTITUDE OF THE UNITED STATES WITH REGARD TO EXPROPRIATION OF LAND AND REGISTRATION OF AMERICAN EDUCATIONAL INSTITUTIONS WITH THE CHINESE AUTHORITIES

393.1163 Property/114

The Minister in China (Johnson) to the Second Secretary of Legation in China (Atcheson), at Nanking [54]

PEIPING, April 11, 1935.

SIR: The Legation has received despatch No. 648 of March 9, 1935 from your office entitled "Proposed Municipal Road across the Property of Ginling College", in which three questions are raised; firstly, the right of the Municipal Government to expropriate land for resale to other parties, secondly, the question whether an educational institution registered with the Ministry of Education, and therefore under Chinese rather than American control, is a Chinese legal person, even though its financial support is derived from the United States and the property it occupies belongs to an American Board of Founders, and thirdly, the degree of diplomatic assistance which such institution is entitled to receive from the American Government.

The general question of expropriation of property is dealt with in the Legation's circular instruction No. 332 of January 4, 1935, entitled "Eminent Domain—Expropriation", in which it is stated that:

"The settled attitude of the Department with reference to the question of expropriation is that it would not be inclined to question the right of the Chinese Government to exercise eminent domain over property owned by American citizens in an appropriate case, that is, for a public purpose, but would of course be under the necessity of insisting that just compensation be made for any property taken or damaged, and that there shall be no discrimination in this respect against American citizens."

A copy of the text of the Chinese Land Expropriation Law, promulgated on July 28, 1928, and a translation thereof made by the Legation, were enclosed with the Legation's Circular Instruction No. 332 of January 4, 1935, mentioned above. Article I of Chapter I of that Law reads as follows:

"When under the following circumstances there is necessity for expropriating land the State may take action in accordance with this Law:

"1. Promotion of public enterprises.
"2. Readjustment of distribution of land for the purpose of developing agriculture and improving living conditions of farmers."

---

[54] Copy transmitted to the Department by the Minister in his despatch No. 3511, April 11; received May 18.

In Article 2 of Chapter I of the Law it is stated that "Public enterprises covered by item one of paragraph one of the preceding Article shall be limited to one of the following undertakings." There follows a list of ten enterprises which may be classified as public enterprises. It is possible that the Chinese authorities might maintain that in order to carry out one of these enterprises it would be necessary to expropriate land and resell it to other persons. Although the Legation is of the opinion that American property in general in China should not be expropriated for resale to other parties, it feels that no definite statement can be made on the matter, and that each case of expropriation should be dealt with on its merits as it arises.

A general discussion of the second question is contained in the Department's instruction to the Legation No. 871 of May 23, 1928,[55] a copy of which was enclosed with the Legation's Circular Instruction No. 252 of June 28, 1928, entitled "Attitude to be adopted by American consular officers towards those American missionary educational institutions registering with the Chinese authorities." The Legation is not prepared to express an opinion as to whether or not an educational institution registered with the Ministry of Education is a Chinese legal person, without having before it for consideration full details regarding the particular case.

The third question, namely, the degree of diplomatic assistance which such an institution is entitled to receive from the American Government, is dealt with in the Legation's Circular Instruction No. 252 of June 28, 1928, mentioned above.

It is realized by the Legation that its instructions have not been requested on the three points herein discussed, but it is deemed advisable nevertheless to set forth its views and to cite the several instructions for reference in case the question should again arise.

Very truly yours, NELSON TRUSLER JOHNSON

393.1163 Property/114

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

No. 1680 WASHINGTON, June 12, 1935.

SIR: The receipt is acknowledged of the Legation's despatch No. 3511 of April 11, 1935,[56] forwarding correspondence exchanged with Nanking office of the Legation on the subject of "Expropriation of land and registration of American educational institutions with the Chinese authorities". It is noted that the Nanking office's despatch, in reporting, as a matter of record, that the question of the construction by the municipal authorities of a road across the property of Ginling

[55] *Foreign Relations*, 1928, vol. II, p. 570.
[56] See footnote 54, p. 815.

College was on the point of being amicably arranged between the college and the municipal authorities, points out that there are three questions involved in this case which may at a later date require answers, namely, (1) the right of the municipal government to expropriate land for resale to other parties; (2) the question whether an educational institution registered with the Ministry of Education and therefore under Chinese rather than American control is a Chinese legal person, even though its financial support is derived from the United States and the property it occupies belongs to an American board of founders; and (3) the degree of diplomatic assistance which such an institution is entitled to receive from the American Government. It is noted further that the Legation in its instruction of April 11, 1935, to Nanking, has set forth its views in regard to these questions.

The Department fully approves the Legation's instruction to Nanking and is of the opinion that pending the submission of a concrete case requiring action on the part of this Government no useful purpose would be served by further discussion.

Very truly yours, For the Secretary of State:
R. Walton Moore

OBJECTION BY CHINA TO EDITORIAL COMMENTS ON CHINESE LEADERS BY "TIME" MAGAZINE

811.917 Time/3

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

[Washington,] June 6, 1935.

The Chinese Minister called and stated that he had received instructions from his Government stating that the Chinese Government found objectionable the terms applied to Chinese Government leaders in the March 18, 1935, issue of the magazine *Time;* that other issues of this magazine contained similar statements derogatory to Chinese leaders; that the radio broadcasts entitled "The March of Time" also referred to the Chinese in objectionable terms; that the Chinese Government desired that these objectionable references to the Chinese cease; that the Chinese Government suggested that this end might be attained either by the American Government issuing instructions that such references should be discontinued or by a friendly approach to the editors of *Time;* that the Chinese Government understood that the American Congress was considering the enactment of libel legislation applicable to radio broadcasting and suggested therefore that such legislation might make it illegal to broadcast items of the nature

which the Chinese Government found objectionable; and that if the magazine *Time* did not cease these objectionable references to Chinese, the Chinese Government would be forced to forbid the entry of this magazine into China.

The Chinese Minister stated that he had asked Dr. Willoughby [57] to examine the article on China in the March 18 issue of *Time* and that Dr. Willoughby had stated, after examination, that he did not believe that the remarks in regard to Wang Ching-wei [58] and other Chinese would be construed as libel under American statutes.

Mr. Hamilton stated that the Department had no legal authority to compel the magazine *Time* to refrain from publishing comments of the nature which the Chinese Government found objectionable, and that he doubted whether any informal approach by the Department to the editors of *Time* would be advisable, for the reason that the editors might take the stand that the Department was endeavoring to interfere with freedom of the press and might publicize the action of the Department and thereby attract greater attention to the comments made in regard to China.

Mr. Hamilton commented that, as the Minister knew, the American people and the American Government believed in freedom of speech and freedom of the press; that because of this belief American statutes relating to libel permitted considerable latitude to the American press and magazines in the publishing of comments; that, although he had not examined recently the article in the March 18 issue of *Time* which the Chinese Government found objectionable, it was his recollection that the statements in the article used no more uncomplimentary terms in regard to China and Chinese leaders than statements appearing in other articles of the same magazine and other magazines referring to Americans and American leaders and to various foreign peoples and their leaders; that while we personally regretted the use at any time by the American press and by American magazines of any terms which foreign governments found objectionable, there was very little, if anything, that the American Government could do in the matter; that, in view of Dr. Willoughby's statement, it was doubted that the statements in the March 18 issue of *Time* constituted libel and that, even if they did, Mr. Hamilton seriously questioned the advisability, from point of view of the best interests of the Chinese Government, of the Chinese Government instituting legal measures against *Time;* that it seemed to Mr. Hamilton that the best way to handle the matter would

---

[57] Dr. Westel Woodbury Willoughby, former professor of political science at Johns Hopkins University, Baltimore, Md.

[58] President of the Chinese Executive Yuan and Acting Minister for Foreign Affairs.

be for the Chinese Government to take no action, for in Mr. Hamilton's opinion, articles such as this made no particular impression upon the American people whereas the filing of a libel suit based on these comments would bring them forcibly to the attention of the American people; that at times it was possible under American statutes for the Postmaster General to bar from the American mail certain types of publications but that Mr. Hamilton frankly thought that comments made by *Time* were not such as to permit the Postmaster General to bar the magazine from the American mails. Mr. Hamilton added that in his personal opinion the Chinese Government would be ill-advised to bar the magazine *Time* from entry into China, as such action would probably result in there being created in the minds of many people who were otherwise very friendly disposed toward China the impression that the Chinese Government was disposed to suppress freedom of speech and freedom of the press.

Mr. Hamilton stated that, although he personally thought that the attitude of the Department would be along the lines indicated by him as his personal opinion, he would be glad to refer the matter to the Legal Adviser's office for an expression of opinion.

M[AXWELL] M. H[AMILTON]

811.917 Time/4

Memorandum by the Assistant to the Legal Adviser (Ward) to the Assistant Chief of the Division of Far Eastern Affairs (Hamilton)

[WASHINGTON,] June 13, 1935.

It is assumed that the issue of March 18, 1935, of the magazine *Time* contains the most objectionable of the articles and broadcasts of which the Chinese Minister complains. On this assumption, this office is in general accord with the views expressed in your memorandum herewith.[59] It expressly concurs in your opinion that the Department has no legal authority to prevent the publication of the articles under reference; that the statements contained in the issue of March 18, 1935, do not appear to be actionable; and that they do not appear to be of a character to warrant their exclusion from the mails of the United States.

[In a conversation with the First Secretary of the Chinese Legation on July 6, the Assistant Chief of the Division of Far Eastern Affairs explained the situation as set forth in the memoranda of June 6 and June 13, and requested Mr. Lao to inform the Chinese Minister (811.917 Time/5).

[59] *Supra.*

On May 27, 1936, the Chinese Embassy stated in a memorandum that it would appreciate anything the Department could do to curb the tendency of certain American publications to circulate groundless statements slandering Chinese Government leaders. The Department replied on June 4, 1936, stating that the printing of reports of a nature to offend the feelings of a friendly people or government was a cause for regret, but again informing the Chinese Embassy that the Department had no legal authority to prevent such publications (811.917 Time/8).]

JAPAN

POLITICAL DEVELOPMENTS IN JAPAN AND EFFORTS TO IMPROVE RELATIONS WITH THE UNITED STATES[1]

500.A15A5/372

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

No. 1102 TOKYO, December 27, 1934.
[Received January 16, 1935.]

Subject: The Importance of American Naval Preparedness in Connection with the Situation in the Far East. Summary of the Situation.

SIR: Now that the London Naval Conversations have terminated,[2] I should like to convey to the Department various thoughts in this general connection to which the Department may desire to give consideration if and when the conversations are renewed or a naval conference convoked.[3] I shall be contributing little that is new, for most of the facts and opinions set forth herein have already been brought to the Department's attention in previous reports. Furthermore, the attitude, policy and action of our delegation in London, as directed by the Government and as revealed in the various summaries of developments telegraphed to this Embassy on October 25[4] and 31,[5] November 22[6] and December 10,[7] and in certain press reports, have indicated a sound comprehension of the situation in the Far East as it exists today. The firm stand of our Government and delegation to maintain the present naval ratios intact in the face of Japanese intransigence, as well as their decision that the action of the Japanese Government in denouncing the Washington Naval Treaty[8] automatically created a new situation in which the conversations must be suspended *sine die*, leaving the Japanese to return home empty handed,

---

[1] Continued from *Foreign Relations*, 1934, vol. III, pp. 631–690.
[2] See vol. I, pp. 217 ff.
[3] See vol. I, pp. 64 ff.
[4] *Foreign Relations*, 1934, vol. I, p. 314.
[5] *Foreign Relations*, Japan, 1931–1941, vol. I, p. 257.
[6] *Ibid.*, p. 260.
[7] Not printed.
[8] Signed February 6, 1922; *Foreign Relations*, 1922, vol. I, p. 247. For text of Japanese notice of denunciation, see *Foreign Relations*, Japan, 1931–1941, vol. I, p. 274.

792998—53——59

were especially gratifying to those of us who have watched the developments in London from this angle. The purpose of this despatch is therefore mainly to summarize and to place my views in concise form on record for the future.

The thought which is uppermost in my mind is that the United States is faced, and will be faced in future, with two main alternatives. One is to be prepared to withdraw from the Far East, gracefully and gradually perhaps, but not the less effectively in the long run, permitting our treaty rights to be nullified, the Open Door to be closed, our vested economic interests to be dissolved and our commerce to operate unprotected. There are those who advocate this course, and who have advocated it to me personally, on the ground that any other policy will entail the risk of eventual war with Japan. Frank Simonds has emphasized that risk as almost a certainty. In their opinion, "the game is not worth the candle" because the United States can continue to subsist comfortably even after relinquishing its varied interests in the Far East, thereby eliminating the risk of future war.

The other main alternative is to insist, and to continue to insist, not aggressively yet not the less firmly, on the maintainance of our legitimate rights and interests in this part of the world and, so far as practicable, to support the normal development of those interests constructively and progressively.

There has already been abundant indication that the present Administration in Washington proposes to follow the second of these alternatives. For purposes of discussion we may therefore, I assume, discard the hypothesis of withdrawal and examine the future outlook with the assurance that our Government has not the slightest intention of relinquishing the legitimate rights, vested interests, non-discriminatory privileges for equal opportunity and healthful commercial development of the United States in the Far East.

In following this second and logical course, there should be and need be nothing inconsistent, so far as our own attitude is concerned, with the policy of the good neighbor. The determination to support and protect our legitimate interests in the Far East can and should be carried out in a way which, while sacrificing no point of principle, will aim to restrict to a minimum the friction between the United States and Japan inevitably arising from time to time as a result of that determination.

The administration of that policy from day to day becomes a matter of diplomacy, sometimes delicate, always important, for much depends on the method and manner of approach to the various problems with which we have been, are, and will continue to be faced. With the ultra-sensitiveness of the Japanese, arising out of a marked inferiority complex which manifests itself in the garb of an equally

marked superiority complex, with all its attendant bluster, chauvinism, xenophobia and organized national propaganda, the method and manner of dealing with current controversies assume a significance and importance often out of all proportion to the nature of the controversy. That the Department fully appreciates this fact has been amply demonstrated by the instructions issued to this Embassy since the present Administration took office, and it has been our endeavor to carry out those instructions, or to act on our own initiative when such action was called for, with the foregoing considerations constantly in view.

But behind our day to day diplomacy lies a factor of prime importance, namely national support, demonstrated and reinforced by national preparedness. I believe that a fundamental element of that preparedness should be the maintenance of the present naval ratios in principle and the eventual achievement and maintenance of those ratios, so far as they apply to Japan, in fact. With such a background, and only with such a background, can we pursue our diplomacy with any confidence that our representations will be listened to or that they will lead to favorable results. General Douglas MacArthur, Chief of Staff of the United States Army, was recently reported in the press as saying: "Armies and navies, in being efficient, give weight to the peaceful words of statesmen, but a feverish effort to create them when once a crisis is imminent simply provokes attack". We need thorough preparedness not in the interests of war but of peace.

It is difficult for those who do not live in Japan to appraise the present temper of the country. An American Senator, according to reports, has recently recommended that we should accord parity to Japan in order to avoid future war. Whatever the Senator's views may be concerning the general policy that we should follow in the Far East, he probably does not realize what harm that sort of public statement does in strengthening the Japanese stand and in reinforcing the aggressive ambitions of the expansionists. The Japanese press of course picks out such statements by prominent Americans and publishes them far and wide, thus confirming the general belief in Japan that the pacifist element in the United States is preponderantly strong and in the last analysis will control the policy and action of our Government. Under such circumstances there is a general tendency to characterize our diplomatic representations as bluff and to believe that they can safely be disregarded without fear of implementation. It would be helpful if those who share the Senator's views could hear and read some of the things that are constantly being said and written in Japan, to the effect that Japan's destiny is to subjugate and rule the world (*sic*), and could realize the expansionist ambitions which lie not far from the surface in the minds of certain elements in the

Army and Navy, the patriotic societies and the intense nationalists throughout the country. Their aim is to obtain trade control and eventually predominant political influence in China, the Philippines, the Straits Settlements, Siam and the Dutch East Indies, the Maritime Provinces and Vladivostok, one step at a time, as in Korea and Manchuria, pausing intermittently to consolidate and then continuing as soon as the intervening obstacles can be overcome by diplomacy or force. With such dreams of empire cherished by many, and with an army and navy capable of taking the bit in their own teeth and running away with it regardless of the restraining influence of the saner heads of the Government in Tokyo (a risk which unquestionably exists and of which we have already had ample evidence in the Manchurian affair), we would be reprehensibly somnolent if we were to trust to the security of treaty restraints or international comity to safeguard our own interests or, indeed, our own property.

I may refer here to my despatch No. 608 of December 12, 1933,[9] a re-reading of which is respectfully invited because it applies directly to the present situation. That despatch reported a confidential conversation with the Netherlands Minister, General Pabst, a shrewd and rational colleague with long experience in Japan, in which the Minister said that in his opinion the Japanese Navy, imbued as it is with patriotic and chauvinistic fervor and with a desire to emulate the deeds of the Army in order not to lose caste with the public, would be perfectly capable of descending upon and occupying Guam at a moment of crisis or, indeed, at any other moment, regardless of the ulterior consequences. I do not think that such an insane step is likely, yet the action of the Army in Manchuria, judged from the point of view of treaty rights and international comity, might also have been judged as insensate. The important fact is that under present circumstances, and indeed under circumstances which may continue in future (although the pendulum of chauvinism throughout Japanese history has swung to and fro in periodic cycles of intensity and temporary relaxation) the armed forces of the country are perfectly capable of over-riding the restraining control of the Government and of committing what might well amount to national "hara-kiri" in a mistaken conception of patriotism.

When Japanese speak of Japan's being the "stabilizing factor" and the "guardian of peace" of East Asia, what they have in mind is a "Pax Japonica" with eventual complete commercial control, and, in the minds of some, eventual complete political control of East Asia. While Ambassador Saito may have been misquoted in a recent issue of the *Philadelphia Bulletin* as saying that Japan will be prepared to fight to maintain that conception of peace, nevertheless that is

[9] *Foreign Relations*, 1933, vol. III, p. 479.

precisely what is in the minds of many Japanese today. There is a swashbuckling temper in the country, largely developed by military propaganda, which can lead Japan during the next few years, or in the next few generations, to any extremes unless the saner minds in the Government prove able to cope with it and to restrain the country from national suicide.

The efficacy of such restraint is always problematical. Plots against the Government are constantly being hatched. We hear, for instance, that a number of young officers of the 3rd Infantry Regiment and students from the Military Academy in Tokyo were found on November 22 to have planned to assassinate various high members of the Government, including Count Makino,[10] and that students of the Military Academy were confined to the school area for a few days after the discovery of that plot, which had for its object the placing in effect at once of the provisions of the now celebrated "Army pamphlet" (see despatch No. 1031 of November 1, 1934[11]). A similar alleged plot to attack the politicians at the opening of the extraordinary session of the Diet—another May 15th incident[12]—is also said to have been discovered and nipped in the bud. Such plots aim to form a military dictatorship. It is of course impossible to substantiate these rumors, but they are much talked about and it is unlikely that so much smoke would materialize without some fire. I wish that more Americans could come out here and live here and gradually come to sense the real potential risks and dangers of the situation instead of speaking and writing academically on a subject which they know nothing whatever about, thereby contributing ammunition to the Japanese military and extremists who are stronger than they have been for many a day. The idea that a great body of liberal thought lying just beneath the surface since 1931 would be sufficiently strong to emerge and assume control with a little foreign encouragement is thoroughly mistaken. The liberal thought is there, but it is inarticulate and largely impotent, and in all probability will remain so for some time to come.

At this point I should like to make the following observation. From reading this despatch, and perhaps from other reports periodically submitted by the Embassy, one might readily get the impression that we are developing something of an "anti-Japanese" complex. This is not the case. One can dislike and disagree with certain members of a family without necessarily feeling hostility to the family itself. For me there are no finer people in the world than the type of Japanese

[10] Lord Keeper of the Privy Seal.
[11] Not printed.
[12] Murder in 1932 of Prime Minister Inukai; see *Foreign Relations*, 1932, vol. IV, pp. 684–688.

exemplified by such men as Count Makino, Admiral Saito,[13] Count Kabayama,[14] Yoshida,[15] Shidehara [16] and a host of others. I am rather inclined to place Hirota [17] in the same general category; if he could have his way unhampered by the military I believe that he would steer the country into safer and saner channels. One of these friends once sadly remarked to us: "We Japanese are always putting our worst foot foremost, and we are too proud to explain ourselves." This is profoundly true. Theirs has been and is a "bungling diplomacy". They habitually play their cards badly. Amau's [18] statement of April 17 [19] was a case in point. The declaration of the oil monopoly in Manchuria at this particular juncture [20] thereby tending to drive Great Britain into the other camp at a moment when closer Anglo-Japanese cooperation was very much in view, was another. While it is true that the military and the extremists are primarily responsible for the "bungling diplomacy" of Japan, the Japanese as a race tend to be inarticulate, more at home in action than with words. The recent negotiations in Batavia amply illustrated the fact that Japanese diplomats, well removed from home influences and at liberty to choose their own method and manner of approach, are peculiarly insensitive to the unhappy effects of arbitrary pronouncements. They have learned little from the sad experience of Hanihara.[21] But the military and the extremists know little and care little about Japan's relations with other countries, and it is the desire of people like Shiratori,[22] Amau and other Government officials to enhance their own prestige at home and to safeguard their future careers by standing in well with the military that brings about much of the trouble. Perhaps we should be grateful that they so often give their hand away in advance.

But all this does not make us less sympathetic to the better elements in Japanese life or in any sense "anti-Japanese." Japan is a country of paradoxes and extremes, of great wisdom and of great stupidity, an apt illustration of which may be found in connection with the naval conversations; while the naval authorities and the press have been stoutly maintaining that Japan cannot adequately defend her shores with less than parity, the press and the public, in articles,

---

[13] Former Prime Minister.
[14] Member of the House of Peers.
[15] Chief secretary of the Cabinet and "traveling ambassador".
[16] Former Minister for Foreign Affairs.
[17] Minister for Foreign Affairs.
[18] Foreign Office spokesman.
[19] See *Foreign Relations*, Japan, 1931–1941, vol. I, p. 224; also *Foreign Relations*, 1934, vol. III, pp. 112 ff.
[20] See *ibid.*, pp. 699 ff.
[21] Japanese Ambassador at Washington in 1924 at the time of the immigration debate in Congress; see *Foreign Relations*, 1924, vol. II, pp. 333 ff.
[22] Foreign Office spokesman until May 1933; Minister in Sweden from December 1933.

speeches and interviews, have at the same time been valiantly boasting that the Japanese Navy is today stronger than the American Navy and could easily defeat us in case of war. In such an atmosphere it is difficult, very difficult, for a foreigner to keep a detached and balanced point of view. We in the Embassy are making that effort, I hope with success, and in the meantime about all we can do is to keep the boat from rocking dangerously. Constructive work is at present impossible. Our efforts are concentrated on the thwarting of destructive influences.

Having placed the foregoing considerations on record, I have less hesitation in reiterating and emphasizing with all conviction the potential dangers of the situation and the prime importance of American national preparedness to meet it. As a nation we have taken the lead in international efforts towards the restriction and reduction of armaments. We have had hopes that the movement would be progressive, but the condition of world affairs as they have developed during the past twelve years since the Washington Conference has not afforded fruitful ground for such progress. Unless we are prepared to subscribe to a "Pax Japonica" in the Far East, with all that this movement, as conceived and interpreted by Japan, is bound to entail, we should rapidly build up our navy to treaty strength, and if and when the Washington Naval Treaty expires we should continue to maintain the present ratio with Japan regardless of cost, a peace-time insurance both to cover and to reduce the risk of war. In the meantime every proper step should be taken to avoid or to offset the belligerent utterances of jingoes no less than the defeatist statements of pacifists in the United States, many of which find their way into the Japanese press, because the utterances of the former tend to enflame public sentiment against our country, while the statements of the latter convey an impression of American weakness, irresolution and bluff.

My own opinion, although it can be but guesswork, is that Japan will under no circumstances invite a race in naval armaments, and that having found our position on the ratios to be adamant, further propositions will be forthcoming within the next two years before the Washington Treaty expires, or before our present building program is fully completed. When the United States has actually completed its naval building program to treaty limits, then, it is believed, and probably not before then, Japan will realize that we are in earnest and will seek a compromise. We believe that Japan's naval policy has been formulated on the premise that the United States would never build up to treaty strength, a premise which has been strengthened in the past by the naval policy of the past two Administrations, by the apparent strength of the pacifist element in the United States, and more recently by the effects of the depression.

While it is true that Japan, by sedulously forming and stimulating public opinion to demand parity with the United States in principle if not in fact, has burned her bridges behind her, nevertheless the Japanese leaders are past masters at remoulding public opinion in the country by skillful propaganda to suit new conditions. Once convinced that parity is impossible, it is difficult to believe that she will allow matters to come to a point where competitive building becomes unavoidable. With a national budget for 1935–1936 totaling 2,193,414,289 yen, of which about 47% is for the Army and Navy, and with an estimated national debt in 1936 of 9,880,000,000 yen, nearly equal to the Cabinet Bureau of Statistics estimate of the national income for 1930, namely 10,635,000,000 yen; with her vast outlay in Manchuria, her already heavily taxed population and the crying need of large sections of her people for relief funds, it is difficult to see how Japan could afford to embark upon a program of maintaining naval parity with the United States and Great Britain.

Having registered our position firmly and unequivocally, we can now afford to await the next move on the part of Japan. I believe that it will come.

So far as we can evaluate here the proceedings of the recent preliminary naval conversations in London, I am of the opinion that the most important and the most valuable result issuing therefrom has been the apparent tendency towards closer Anglo-American cooperation in the Far East. If we can count in future—again as a direct result of Japan's "bungling diplomacy"—on a solid and united front between the United States and Great Britain in meeting Japan's flaunting of treaty rights and her unrestrained ambitions to control East Asia, the future may well assume a brighter aspect for all of us.

Theodore Roosevelt enunciated the policy "Speak softly but carry a big stick". If our diplomacy in the Far East is to achieve favorable results, and if we are to reduce the risk of an eventual war with Japan to a minimum, that is the only way to proceed. Such a war may be unthinkable, and so it is, but the spectre of it is always present and will be present for some time to come. It would be criminally shortsighted to discard it from our calculations, and the best possible way to avoid it is to be adequately prepared, for preparedness is a cold fact which even the chauvinists, the military, the patriots and the ultra-nationalists in Japan, for all their bluster concerning "provocative measures" in the United States, can grasp and understand. The Soviet Ambassador recently told me that a prominent Japanese had said to him that the most important factor in avoiding a Japanese attack on the Maritime Provinces was the intensive Soviet military preparations in Siberia and Vladivostok. I believe this to be true, and again, and yet again, I urge that our own country be adequately prepared to meet all eventualities in the Far East.

The Counselor, the Naval Attaché and the Military Attaché of this Embassy, having separately read this despatch, have expressed to me their full concurrence with its contents both in essence and detail.

Respectfully yours, JOSEPH C. GREW

711.94/1012

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

[WASHINGTON,] January 3, 1935.

I venture to express the opinion that in the field of foreign relations the most important problem confronting the United States for the year 1935 is that of relations with Japan.

In the field of relations between the United States and Japan we are confronted with a much more obvious possibility—I do not say probability—of war than in the field of relations with any other country. Inasmuch as the most important single objective in our foreign policy is that of peace; and as a breach of the peace by Japan, whether in the form of an attack upon us or of an attack upon some other country, would be a distinct setback to the cause of peace; and inasmuch as a war between ourselves and Japan could not fail to bring to us more of disadvantage than of advantage; and inasmuch as our action in relations with Japan will contribute substantially toward the molding of tendencies on the part of of the Japanese either toward or away from war, the problem of action by the American Government in the field of relations with Japan and, in connection therewith, in relations with the countries of the Far East in general is and will be of outstanding importance. I firmly believe that this problem transcends in importance any other one problem with which this Department is dealing or will have to deal during this year.

I ventured a few weeks ago to state what I thought should be in broad outline the policy of the United States with regard to the Far East. I said:

"That which should be the policy of the United States with regard to the Far East can readily be summed up in one sentence: (*a*) to act with justice and with sympathy, as a 'good neighbor'...[23] (*b*) to speak softly; and (*c*) to carry a big stick."

I still think and shall continue to think that the points (*a*), (*b*), and (*c*) set forth in that sentence should stand as the cardinal principles by which we should be guided at every step and in every act in our conduct of "Far Eastern relations" during the critical year which lies ahead.

---

[23] Omission indicated in the original.

A. *With regard to courses of action:*

It is believed that we should make it our resolve to avoid as far as possible the injection by ourselves of new questions or the raising by us of new issues in relations with Far Eastern countries, especially relations with Japan. If new questions or new issues are brought forward by others, we should take plenty of time to consider the factors involved and should expect to employ "Fabian" strategy and tactics.

It is believed that we should plan to avoid being drawn during this year into any new commitments of a formal or quasi-formal character with regard to questions of the Far East. It is quite likely that we will be approached by the Japanese with suggestions or proposals looking toward a non-aggression pact or some agreement approximating such. It is possible that we will have some proposals from Great Britain envisaging agreements with regard to Far Eastern policy. In any such event, it would be well for us to give to the matters and factors involved ample scrutiny before committing ourselves in any way.

The London naval conversations have served a useful purpose in having brought Japanese thought and British thought into clearer perspective, in having compelled the governments most concerned to take careful stock of their positions, and in having focused the attention of the world upon the realities of the problem of limitation of naval armament. Day by day the American people are being enabled to take clearer cognizance of the facts which need to be known and to be weighed in and with regard to the situation in the Far East and the problems which confront the American Government in connection therewith. We should welcome the support which the anticipated termination of the Naval Treaty gives to the policy which this Administration has adopted and with which it expects to proceed of enlarging and improving our naval equipment. We should not, for the moment at least, regret the fact that there is in prospect the possibility that we shall have, along with other countries, entire freedom of action in regard to our naval building program. It is better that there be no treaty than that there be a treaty the provisions of which irk and irritate one or more of the parties thereto and tie the hands of others in connection with matters which are vital (as is the matter of national security).

We should be very cautious about suggesting any new agreements or receiving suggestions for any such. The only kind or kinds of agreements that would be likely to be susceptible of conclusion under existing circumstances would be such as would consist either of mere platitudinous statements and/or equivocal provisions and/or high-

sounding but meaningless pledges entered into with mental reservations on the part of one or more of the signatories. Such agreements would solve no problems.

It is a fact that Japan has broken various of her pledges with regard to matters which are important and which, some at least, she regards as vital. It is a fact that the Japanese conceptions today of legality, of morality and of expediency differ from ours. Whatever may be the situation a year from now or later, we should avoid action which, if taken, would in fact or by implication give countenance to or condone those of Japan's recent acts which we believe to be unlawful and/or inconsistent with the general principles of international morality in which we believe. There is no question in existence today between ourselves and Japan which calls for any early settlement, any early gesture or any early concession on our part. We can afford to be deliberate in relation to any advances which it may some day become desirable for us to make or any approaches which may be made to us.

The thing most needed now is that we be and that we show ourselves quietly self-confident as regards attitude and definitely strong as regards military preparedness and domestic factors, both political and economic, which relate thereto. What Japan aspires to today is national strength. What Japan will respect on the part of others, and particularly on the part of the United States, will be national strength. To be, in relations with Japan, secure, and to have, in relation to our legitimate interests in the Far East, influence, we must possess both the fact and the appearance of political and economic and military strength, especially the strength of a powerful and adequately equipped Navy.

B. *With regard to certain particular questions:*

1. *The "Open Door Policy"*. The expression "open door policy" has, unfortunately, become attached to our policy of equality of opportunity in relation to China in particular and our policy of championing the idea of maintaining the integrity of China. Certain observers and givers of advice are suggesting that we "scrap" or "give up" the open door policy. But as a matter of fact, our policy of seeking to observe and to obtain respect for the principle of equality of opportunity and, in connection therewith, seeking to obtain respect for the principle of territorial integrity in regard to China, is merely a particular application of certain principles which are general as regards our foreign policy. Our "Far Eastern" or "China" policy is not peculiar in regard to these matters. Nor do the principles which we advocate (and to which we pay respect) in that connection differ from the principles professed (but not in all cases scrupulously lived up to) by the other powers, especially Great Britain. Moreover, both of these principles are written into a number of treaties to which we are party,

especially the Nine Power Treaty [24] (which has fourteen signatories); they are comprised within the covenant of the League of Nations; [25] and they may be said to be more or less underwritten by the Pact of Paris.[26] For us to scrap or give up the open door policy would mean that we either change our whole foreign policy in regard to equality of opportunity and territorial integrity of existing states or make a definite and specific exception as regards the Far East. We certainly will not do the former. To do the latter we would have to go back on our treaties, indicate that our policy is out of line with that of the League, and put ourselves in the position of starting a general movement in a direction exactly opposite to that in which we have traditionally led the world. If we did this without making an announcement, we would produce all sorts of misunderstanding and confusion. If we did it by and with an announcement, our announcement would be tantamount to a declaration that, so far as we are concerned, Japan may do as she pleases in and with regard to China. If we did that, we might please Japan, but we would disappoint Russia, fill several other nations with disgust, utterly alienate China, and deprive ourselves of any effective influence as champions of the principle of cooperation among the powers in pursuit of policies based on principle and directed toward reliance on law and on treaties and on concepts of international morality as distinguished from those of mere self-interest and casual expediency. It may be well for us to indulge in some publicity with regard to the true character of the so-called "open door" policy; but give up the policy which, in reference to China, is so designated, we cannot. We can be slow to initiate contention with regard to the "open door"; but, noting that the British Government does not hesitate to object to violations of the principle of non-discrimination we should be at least as firm as is that Government with regard to that principle.

2. "*Non-recognition*" *doctrine.* The position taken by the previous Administration in 1932 and thus far adhered to by this Administration in regard to developments in Manchuria is one in which we should persevere. The "non-recognition" notes of January 7, 1932,[27] were sent before the political entity now called "Manchukuo" came into existence. The history of the "non-recognition" doctrine is well-known: this Government had made use of the "non-recognition" formula in

---

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

[25] *Treaties, Conventions, etc., Between the United States of America and Other Powers*, 1910–1923 (Washington, Government Printing Office, 1923), vol. III, p. 3336.

[26] Signed August 27, 1928; *Foreign Relations*, 1928, vol. I, p. 153.

[27] For note to Japan, see telegram No. 7, January 7, 1932, noon, to the Ambassador in Japan, *Foreign Relations*, Japan, 1931–1941, vol. I, p. 76; for note to China, see telegram No. 2, January 7, 1932, noon, to the Consul General at Nanking, *Foreign Relations*, 1932, vol. III, p. 7.

1915 [28] and in 1921; [29] we used it again in 1932; the League adopted it in 1932; [30] it has since been used by us and by Latin American states in new political contexts. A year ago the Secretary of State was constrained, in reply to inquiries formulated by press correspondents, to say that the question of recognizing "Manchukuo" was not under consideration by this Government and that our position with regard to the principle of "non-recognition" was in no way changed. Since that time nothing has occurred in the light of which we need to consider or to reconsider this question. The British Government has indicated recently that it continues to be its intention to abide by the resolution of the League. Were we in no way whatever committed by previous statements and practice, it would still be a fact that diplomatic recognition by us (or by any other state) of a political entity such as "Manchukuo" is today would be unwarranted and could in no way bring great advantage to the recognizing state. (Note: "Manchukuo" is today in military occupation by the Japanese Army; it is controlled by the Japanese Ambassador accredited to it—who is at the same time both Commander in Chief of the Japanese forces present (approximately 100,000 men) and Governor of the Japanese-administered areas in Manchuria—together with the seventeen hundred Japanese advisers who direct the activities of the Chinese officials at Hsinking). Therefore, the thing for us to do about the "non-recognition policy" is to do nothing about it: we should refrain from statements with regard to it but should persevere in the stand-pat position which is its essence.

3. *Relations with China.* It may reasonably be doubted whether we need expect in the near future much trouble in relations of a political character between this country and China. The nationalist exuberance of the Chinese which attended and ensued upon the Kuomintang conquest of the country, in 1926–1928, has undergone substantial modification. The Chinese have come to a realization that there are other matters to which they need to devote their thought and attention more urgently than to the question of getting rid of the so-called "unequal treaties." The Nanking Government is more and more directing its energies to constructive efforts in the domestic field, to meeting the "Communist" menace within China's own borders, and to safeguarding its own position against pressure from Japan. It seeks to be on as good terms as possible with the United States and Great Britain.

---

[28] See telegram of May 11, 1915, 5 p. m., *ibid.*, 1915, p. 146.

[29] See memorandum to the Japanese Embassy of May 31, 1921, *ibid.*, 1921, vol. II, p. 702.

[30] See resolution of March 11, 1932, *Foreign Relations*, Japan, 1931–1941, vol. I, p. 210.

To one question, however, in its relations with China, the American Government should give immediate and most thoughtful and sympathetic consideration: the question of silver.[31] The present silver purchasing program of the American Government, under Act of Congress,[32] is not consistent with the principle—insofar as China is concerned—of the "good neighbor policy." Our action in regard to silver is doing great and immediate injury to China and may produce an economic cataclysm in that country. Our course in this connection should be altered.

4. *Philippine Islands.* In the shaping of our course and the choosing of our steps, it is of course necessary that we make certain assumptions with regard to the future of the Philippine Islands. It is necessary that we assume that the provisions of the Act of March 24, 1934,[33] "to provide for the complete independence of the Philippine Islands . . . et cetera" will be carried out. However, we should not assume that those provisions have been carried out and we should not fail to take into account the fact that many things, even to amendment or repeal of the Act, may occur before the date of intended conferring upon the Philippines of "independence" shall have arrived. Some at least of our plans wherein items of long swing are involved and wherein the status of the Philippines is a factor must be tentative and must be formulated with a feature of adequate elasticity.

In regard further to the Philippines, it is believed that we should for the time being at least refrain from proposing or being receptive to the suggestion of a neutralization agreement. The future of the Philippines is still a very uncertain matter. A neutralization agreement, if entered into, would unquestionably have certain advantages; but it would with equal certainty have, for this country, certain definite disadvantages. The matter of concluding or not concluding such an agreement is not urgent. If and when in the natural course of events it comes up, we will have ample time to consider it and we should take all the time that may be needed to give it consideration from every angle.

5. *Japanese Immigration Question.* The question of amending that provision of the Immigration Act of 1924[34] the effect of which is "Japanese exclusion" is always more or less before the American people.

The present Japanese Ambassador here mentions this question, and various Americans urge action with regard to it, from time to time.

---

[31] See section entitled "Problem of China's Economic Reconstruction and the Attitude of the United States and Other Governments Respecting Financial Assistance to China," pp. 526 ff.

[32] Approved June 19, 1934; 48 Stat. 1178.

[33] 48 Stat. 456.

[34] Section 13 (*c*), approved May 26, 1924; 43 Stat. 153, 162.

We know that the Japanese Government has in recent years definitely taken the position that it will not formally raise the issue but will leave it to the people and Government of the United States to take steps, when and as we may, toward removing from our laws this feature of "discrimination."

The present Administration has, wisely, taken the position that this question is one which falls primarily within the legislative field. It has declined to be drawn into controversy or to become involved in any commitment with regard to the matter. Alteration of the law so as to remove the discriminatory feature would upon its intrinsic merits be a helpful measure. But, if the raising of the question resulted in acrimonious discussion in Congress, and if, after alteration of the law, there ensued a recrudescence of anti-Japanese feeling in those parts of the United States where the Japanese reside in considerable numbers, or if, after debate, the law were not amended, we would be worse off in relation to the whole matter than we are now.

When the question was before Congress in 1924 the executive branch of the Government got itself gratuitously into trouble by injecting itself into the matter. While it is probable that, if the President asked the present Congress to change the law, the Congress would do so, it nevertheless is believed that the result would be an acrimonious discussion before the matter was voted upon and, after the altering of the law, a new and vehement outcry, in an anti-Japanese sense, on the part of a considerable number of people on the Pacific Coast, with the secondary result that there would be danger of acts of violence in consequence of which there would arise new issues between this Government and the Japanese Government.

It is believed that removal in that manner of this "discrimination" against the Japanese, although it would give Japan a certain amount of psychological satisfaction, and although it would eliminate one of the talking points in the arsenal of argumentative weapons with which the Japanese attack the United States, yet would contribute little if anything toward the solving of the major issues, that is, issues which arise out of and rest upon differences in political and economic concepts and objectives, between the two countries.

It therefore is believed that the Administration should continue as hitherto to avoid becoming involved in this question.

6. "*Gestures*". It is believed that we should avoid the making of "gestures", whether of special friendliness or of menace. We should not go out of our way toward expressing mere "good will" either to China or to Japan. We should be neither more cordial nor less cordial toward either of these countries than we are toward other countries. At the same time, we should avoid undue parading of our naval strength and undue discussion of the problem of maintaining

peace and of avoiding war in the Far East. We should unquestionably have a "big stick"; but we do not need to wave it or to talk about it, and we should refrain from doing the one and should be careful in our use of words in doing the other.

7. *Cooperation with Great Britain.* We should cultivate in relation to problems of the Far East conditions of close harmony and the maximum of practical cooperation between ourselves and Great Britain. Toward doing this, we should go out of our way to inform the British Government of our views, to consult them with regard to theirs, to give them notice of our intentions, et cetera, et cetera, in regard to matters where there is involved a community, a parity or a similarity of interest. We should, in dealing with them, coordinate our moves and methods with regard to Far Eastern matters with our moves and methods in regard to other matters. We should try to cultivate an impression on their part that they lead and we follow. We should avoid dissenting from or rejecting their suggestions when their views and ours differ by but a small margin and at points which are not of great importance. When and where there are large issues, we should make clear to them just what is our position and that we will not move or be moved from it, thus avoiding long and futile discussions and misunderstanding and disappointment arising out of unwarranted expectations or vain hopes.

8. *Cooperation with the Soviet Union.* We should find it possible to cooperate on commercial and economic lines with the Soviet Union with consequences directly advantageous to us not only in those lines but indirectly in the political field as regards our problems in the Far East. Increments of economic strength by the Soviet Union will tend to divert the attention of Japan and to discourage reckless adventuring on Japan's part. It would probably be to our advantage to reach with the Soviet Union a settlement of claims on as favorable a basis as may be possible and to encourage trade between the two countries. We should be cautious, however, about any movement toward the developing of political bonds or appearance of diplomatic *rapprochement* between ourselves and the Soviet Government. Developments of those types would give us nothing upon which we could definitely rely and would, on the other hand, increase suspicion among the Japanese of our intentions with regard to the Far East, thereby injecting a new cause of irritation into our relations with Japan; and they might also be misleading to the Russians, causing them to expect more in the way of support from us, in the event of their getting into difficulty with Japan, than would be warranted. We should keep in mind the fact that to the Soviet Union a war between Japan and the United States would probably be looked upon with gratification, on the theory that these two combatants would weaken each other and

thus relieve the Soviet Union of its fear of Japan and at the same time of its reason for apprehension of the influence of the leading capitalist state, the United States.

9. *Cooperation with Japan.* We should seek opportunities to cooperate with Japan in fields where the Japanese understand or can be really convinced that cooperation will be to their advantage as well as to ours. To do this, we must take full account of the conditions in and around Japan and of the needs and problems which confront the Japanese Government and people.

Japan's population problem has assumed serious proportions and aspects. It is obvious that Japan either must have access to enlarged markets for her goods and must further develop an industrialized economy or must starve. The inherent virility and vitality of the Japanese people preclude any expectation that they will passively accept the latter alternative. Nor will these same qualities, stimulated by the present wave of intense nationalism, permit the Japanese people to accept arbitrary blocking of pathways to what they consider their "destiny" in world affairs. The Japanese are convinced that the years 1935 and 1936 are "emergency" years, and the tenseness of their feelings, if aggravated by ill-advised opposition, might easily carry them over the breakwater of reason into a war regardless of prospects of success.

It would seem, therefore, that we should avoid consistently any suggestion of seeking to suppress or to coerce Japan. At the same time we should let it be clearly understood that in matters where our views in regard to important principles are in conflict with those of Japan we cannot give consent or assent to the courses which they seek to pursue. The Japanese are at heart realists who can appreciate straightforwardness and tenacity. While avoiding any attempts at pressure which we are not thoroughly prepared to maintain or to carry through, we should nevertheless bear in mind that a military people are most impressed by military strength, and that the most effective preventive of a resort to force by a people so minded is the presence of greater force at the disposal of those to whom they are in opposition.

10. *Naval Strength.* We should speed our efforts toward possessing a navy so strong that no other country will think seriously of attacking us; and we should let it be clearly seen that, while not wanting to fight and having no reason for attacking any other country, the people of this country not only are not "too proud to fight" but, given certain situations, would be too proud not to fight.

S[TANLEY] K. H[ORNBECK]

792998—53——60

694.1117 American Japanese Trade Commission/1 : Telegram

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

TOKYO, January 11, 1935—4 p. m.
[Received January 11—6 : 56 a. m.]

7. The Foreign Office has informally invited the attention of the Embassy to a projected American economic mission to the Orient purportedly under the auspices of the National Foreign Trade Council. The circular prospectus of the project, which has been cabled to the Foreign Office by Sawada,[35] states that the decision to promote the mission was taken "after consultation with Departments of State and Commerce". The prospectus envisages a comparatively brief visit to Japan and a long stay in China.

If this project is being seriously considered and if our Government is in a position to influence its plans I recommend that the following circumstances be given consideration.

1. The mission will be attended by the same secret negotiations, conjecture and speculative comment as were provoked by the Barnby Mission.[36]
2. The Japanese at the present time are intensely sensitive regarding foreign activities in China.
3. Without sacrificing or curtailing any American rights or interests, the method and manner of asserting those rights in the Far East are at present important.
4. A commercial or industrial mission to the Orient which deliberately emphasized preponderant Chinese interests and connections would inevitably be interpreted and resented in Japan as an American attempt to counteract Japan's commercial influence in China and might well be regarded, at least by the vocal sections of the Chinese public, as a direct slap at Japan.
5. Foreign commercial missions to China are always under suspicion in Japan of having ulterior political objective and no amount of official denials can persuade the Japanese that such missions are not officially sponsored and supported.

Having in mind the foregoing considerations and with the conviction that our policy while fully supporting American legitimate rights and interests is at the same time to avoid unnecessary provocation of anti-American sentiment and irritation in Japan, especially at the present juncture, I cannot too strongly urge that the projected mission so frame its plans and announcements as to create a public impression of reasonable balance in its interests, investigations and contacts in Japan and China. Such a policy in my opinion would tend to facilitate and smooth the way for whatever reciprocal trade agreements might eventually be negotiated or promoted in the latter country apart from such business as might be done in Japan.

---

[35] Renzo Sawada, Japanese Consul General at New York.
[36] This unofficial British group visited Japan and "Manchoukuo".

I therefore respectfully recommend:

(*a*) that it be definitely understood at the outset that the mission would give at least as much attention to Japanese industry and commerce as to Chinese on the logical commercial ground that our present trade prospects with Japan are by far the greater.

(*b*) that the mission be small and composed of a few outstanding men equal in caliber to the personnel of the recent Barnby Mission from Great Britain so that there can be no comparisons to American disadvantage.

(*c*) that every proper effort be made by the mission to avoid either giving unnecessary offense to the Japanese or leading the Chinese to believe that American business and industry consider our Japanese commercial relations relatively unimportant.

The Commercial Attaché concurs in the foregoing recommendations.

In this general connection please refer to my despatch No. 1102, December 27, due in Washington January 14.

GREW

694.1117 American Japanese Trade Commission/2 : Telegram

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

WASHINGTON, January 12, 1935—3 p. m.

6. Your 7, January 11, 4 p. m. Last year the National Foreign Trade Council sponsored, it is understood upon Japanese initiative, the formation of an American-Japanese Foreign Trade Council. Later there was formed a similar American-Chinese Foreign Trade Council. Thereafter, the American-Chinese Council originated the idea of a visit to China under its auspices of a group of American business men who have had experience in China. Officers of the National Council and of the American-Chinese Council consulted with officers of the Department inquiring whether there would be any objection and were told that there would not be but that in all probability as soon as the project came to public knowledge there would arise difficulties of such character as you now point out. Interested parties have kept the Department informed of developments. The latest information is to the effect that the project is shaping up in the form of two "economic missions to the Far East," one a mission to China, the other a mission to Japan, with also possibly a mission to the Philippines.

The Government is in no way a sponsor for this project. We have assured the promoters that the mission will be accorded such assistance in its travels as may properly be accorded American private citizens traveling abroad. The present tentative roster includes a considerable number of business men of substance experienced or interested in trade in the Far East. Its sponsors are aware of the considerations which the Embassy advances and of the desirability of following a course

such as you recommend. The Department however will bring the substance of your telegram expressly to their attention.

For the present, it is believed that Department and Foreign Service should refrain from undertaking to explain the mission and should refer inquirers to the National Foreign Trade Council, which Council will presumably make its own announcement when its plans are matured and it deems the time opportune. In the interval you may in your discretion inform official inquirers confidentially that the missions will be strictly unofficial, that it is your understanding that the plans in connection with the project are not yet completed, but that it seems clear that the sponsors are viewing the problems presented in reasonable perspective and are earnestly endeavoring to shape the plans accordingly.

HULL

711.94/1001

Memorandum by the Secretary of State

[WASHINGTON,] January 15, 1935.

The Japanese Ambassador [37] came in with the so-called traveling Japanese Ambassador, Mr. Yoshida, and presented him to me.

Mr. Yoshida was very cordial and agreeable in his conversation. I jocularly remarked that it would be appropriate for our so-called traveling Ambassador, Mr. Norman Davis, to be present on the occasion of this visit of Mr. Yoshida, who, with the rank of Ambassador, is traveling from country to country around the world. He then stated, in answer to my inquiry, that he was traveling from capital to capital and was now making his way homeward; that his only mission to Washington was to visit his Embassy, and that he was calling on me only to pay his respects.

Mr. Yoshida then requested me to give him a message that he might take back to Foreign Minister Hirota in Tokyo. I at once replied that I would be glad for him to take back to Mr. Hirota, as my message, the substance and the spirit of the letter of Foreign Minister Hirota to me last spring and my reply to the same.[38] I added that I would renew, repeat, and revitalize the subject-matter of these two letters as a message to his Foreign Minister.

I then added that it would be very fine if vociferous persons who had been indulging in unnecessary, untimely and, in most respects, impractical talking in our various countries would only subside for a time and give the great body of the people, and even the statesmen, opportunity for genuine reflection and calm and solid thinking, this

---

[37] Hirosi Saito.

[38] *Foreign Relations*, Japan, 1931–1941, vol. I, pp. 127, 128.

would most contribute to the mutual welfare of both of our countries and of all countries. I further remarked that statesmen and leaders of thought everywhere then could go forward in a clearer atmosphere and promote suitable and desirable international policies that would be equally beneficial to their respective populations.

The Ambassador expressed his approval, but he did not undertake to elaborate or indicate any undue enthusiasm. I repeated then that there had been entirely too much unnecessary and pointless talking all along the line for any desirable purpose on the part of anybody.

C[ORDELL] H[ULL]

694.1117 American Japanese Trade Commission/4 : Telegram

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

WASHINGTON, January 17, 1935—2 p. m.

7. Your No. 7, January 11, 4 p. m., and Department's No. 6, January 12, 3 p. m. According to information furnished the Department, the National Foreign Trade Council, New York, has now decided to sponsor an economic mission to China which will also visit Japan and the Philippines (forming in effect separate sections in each country) for the purpose of discussing mutual problems affecting trade. The mission will comprise members selected from industrial corporations having large interests in those countries with a number of experts in economics, transportation and finance, and also several prominent men who are not now identified actively with any American corporation but who have had associations with those countries in the past.

The Department is informed that the letter which the Council was to send out on January 15 to the firms interested in the organization of this mission was approved by both the Chinese and the Japanese concerned, the latter including Mr. Sawada, at New York.

The Council's letter indicates that the American-Japanese Trade Council in New York will make arrangements for the mission to confer during its stay in Japan with members of the Japanese-American Trade Council and the Japan Economic Federation.

The mission is scheduled to leave March 22 from San Francisco on the *President Coolidge* and to remain 2 weeks in Japan before proceeding to China, where it will spend about 6 weeks visiting the principal cities.

For the present it is suggested that you continue to keep in mind the last paragraph of Department's No. 6, January 12, 3 p. m.

HULL

500.A15A5/372

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

WASHINGTON, January 21, 1935.

MY DEAR MR. AMBASSADOR: I am writing to express my personal appreciation of your confidential despatch No. 1102 of December 27, 1934, on the subject "The Importance of American Naval Preparedness in Connection with the Situation in the Far East. Summary of the Situation". You have, in my opinion, presented concisely and clearly the essentials of the situation which confronts the United States in its relations with Japan and in its consideration of the Far Eastern phase of the problem of naval armaments.

A summary of any situation important in the relations between Japan and the United States, prepared by an observer who is not only trained and qualified but who is also in intimate and day to day contact with actualities at that end, is helpful. In this particular case, your study is—because of the unusual importance of the subject, the cogency and clarity of your presentation, and the timeliness of the despatch—of especial interest and value.

I have brought the despatch to the attention of the President [39] and I expect to make discreet use of it in seeing that leaders of the Administration have a sound understanding of the situation in Japan and of the need of American naval preparedness.

I am well aware that yours is a most difficult and important post, and I am greatly gratified at your able and tactful representation of the interests of the United States.

With all best wishes, I am

Sincerely yours, CORDELL HULL

500.A15A5/372

The Secretary of State to President Roosevelt

WASHINGTON, January 22, 1935.

DEAR MR. PRESIDENT: I am sending you here attached: a copy of a despatch just received from Ambassador Grew [40] on the subject: "The Importance of American Naval Preparedness in connection with the Situation in the Far East"; a digest thereof; [41] and a copy of a memorandum prepared recently in the Department, entitled "Relations between the United States and Countries of the Far East—Especially Japan—in 1935".[42]

---

[39] See *infra*.
[40] No. 1102, December 27, 1934, p. 821.
[41] Digest not printed.
[42] Memorandum of January 3, p. 829.

The views expressed by Mr. Grew with regard to the present situation and the importance of American naval preparedness are absolutely in accord with views which have been expressed to me from time to time by my assistants who are concerned with those questions here in the Department. With their deductions and conclusions and those of Mr. Grew, I am absolutely in accord. In the memorandum on "Relations ... in 1935", there are given suggestions with regard to the line of procedure which this Government might to advantage follow, both in general and with regard to particular questions, during the period immediately ahead of us. Copies of this have been shown to Norman Davis [43] and William Bullitt,[44] and they have both expressed general concurrence.

I think that you will wish to look through all of this, and at some time in the near future I should like to discuss with you ways and means for bringing these matters discreetly and in confidence to the attention of certain Members of the Congress.

Faithfully yours, CORDELL HULL

894.00/541

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

No. 1156 TOKYO, February 6, 1935.
[Received February 23.]

SIR: Recent despatches from this Embassy, notably numbers 1079,[45] 1102,[46] and 1116,[47] have discussed the present-day chauvinism in Japan, have outlined the situation arising out of the naval problem, and have considered American prestige in relation to our interests in the Far East.

The general conclusion drawn is that there exists in Japan today a definite urge toward economic and political expansion in East Asia and, as a corollary, a growing pressure against the interests of western nations, including the interests of the United States, in this part of the world.

These despatches, logically, have examined the situation and the future outlook chiefly from the objective or foreign point of view rather than through the eyes of the Japanese themselves. But as there are two sides to every problem, it will perhaps help to focus the picture and to give a proper balance to our judgment if we try for a moment to put ourselves in their place and to visualize the outlook as they, the Japanese, see it.

---

[43] Chief American delegate at the London naval conversations in 1934.
[44] Ambassador to the Soviet Union, temporarily in Washington.
[45] *Foreign Relations*, 1934, vol. III, p. 684.
[46] *Ante*, p. 821.
[47] *Foreign Relations*, 1934, vol. III, p. 687.

Psychologically, the Japanese resent being considered on a different footing from other nations. They believe they occupy a position which entitles them to the same consideration in the Far East that the British and French claim in the affairs of Europe or even the United States in the Western Hemisphere, and they intend to assert and maintain this position with all the strength at their command.

In addition, or perhaps at the back of this attitude, is the expansionist urge due to the economic problem involved in the struggle for existence, the normal tendency and striving to achieve a higher standard of living and the acute competition inevitably arising therefrom. To a certain extent the Japanese are a revolutionary force in the Far East. They feel that the Western Powers have exploited China with little benefit to the Chinese; that there must be an end to this activity and that Japan is called to act. Besides, the Japanese believe that it will be profitable. With a larger sphere of activity Japanese industry and commerce will expand further and remove the spectre of restricted markets from their eyes. If this has to be done at others' expense it cannot be helped. There is in the Japanese attitude something of the "manifest destiny" idea, or the point of view expressed by Kipling in his poems of the British Empire.

It therefore behooves us to examine this expansionist urge in Japan as the reasonable and logical operation of well-nigh irrepressible forces based on the underlying principle of self-preservation. We are apt to stress the military aspects of Japanese activity without carefully considering the driving impulse of the whole nation. If, from an examination of concrete evidence, we become convinced that Japan is faced with a national problem of the utmost gravity brought about primarily by natural developments, and that military covetousness is only one phase or expression of it, and if we furthermore become convinced that failing certain outlets which will act as safety valves, some sort of explosion or series of explosions along the lines of the Manchurian affair must inevitably occur, we may pause to consider the wisdom of basing our own policy toward Japan on two concurrent principles: (1) national preparedness for the purpose of protecting our legitimate interests in the Far East, and at the same time (2) a sympathetic, cooperative and helpful attitude toward Japan, based on larger considerations reaching into the future.

Four distinct factors in this connection should be given consideration:

(1) Overpopulation.
(2) Lack of natural resources.
(3) Industrialization.
(4) The rising standard of living.

We may consider these economic factors seriatim before drawing conclusions:

Overpopulation

According to the last official census of Japan Proper, taken in 1930, the population at that time was 64,450,005, an increase of 4,713,183 over the population at the time of the previous census (1925). The increase was therefore at the average rate of 942,636 or about 1.5 per cent per annum. The rate of increase does not show a decelerating tendency; in fact it has risen steadily from around .5 per cent per annum in the decade 1870–1880, to its present 1.5 per cent. The birth-rate in Japan Proper in 1930 was 32.4 per thousand of the population, as compared with 18.1 in France, 17.5 in Germany and 16.8 in Great Britain. The density of population in Japan Proper in 1925 was 404 per square mile; by 1930 it had risen to 437 per square mile. This does not seem to be an excessive density when compared with the 678 per square mile in Belgium, 561 in Holland and 468 in the United Kingdom, but it should be remembered that whereas the land in Belgium, Holland and the United Kingdom is practically all arable or at least fit for human occupation, only about fifteen per cent of the area of Japan Proper is arable and little of the remainder is fit for anything but forests. The Japanese density of population can be better understood when compared with that of countries or States of the United States with somewhat similar mountainous characteristics. Thus Switzerland has a density of population of 251 per square mile, Norway 21, Sweden 35, California 22, Oregon 8, Washington 20 and Vermont 38.

There is no indication at present that the Japanese will be willing to accept birth control as a remedy for their excessive rate of population increase. At the same time, being an ambitious, active and progressive people, they are not willing to accept the lower standard of living which would normally accompany an increase in population without a corresponding increase in resources. A pressing need therefore exists to find work and livings—economic opportunity—for nearly a million persons each year. During the next generation, even if the population could be caused to stop increasing now, additional livings must be found for some twenty millions already born and now growing up. This is the basic urge behind the expansionist activities of the Japanese people, as it is an urge which cannot be satisfied by emigration (the emigration of Japanese labor is meeting obstacles throughout the world), nor by further development of the natural resources of Japan (a subject which is discussed in the following section), nor by colonization, as colonization in the surrounding territories in the Far East has been defeated by the lower standards of living of the peoples of those territories. Industrialization of the country has partly supplied the need for economic opportunity, but industrialization presupposes the existence of definite markets and

thereby leads to territorial expansion in one form or another, as is described in a later section of this despatch.

Natural Resources of Japan

The assertion is often made that Japan is poor in natural resources. This assertion is subject to many qualifications. The country has not sufficient resources of its own to provide over an extended period for an expanding population with a rising standard of living and a determination to play an ever increasing part in world economic development. It has, however, resources of no mean importance, which can take care of most of the immediate needs of the people and which form a reservoir of strength that is frequently not appreciated by outside observers. The nation must reach out into the world for many raw materials to feed its expanding industry, and to provide opportunity for development to a restless and ambitious population; it must go into the outside world to find markets for the sale of many of its products if it is to continue its progress, but it is a mistake to regard Japan as weak and without native resources of value.

At the moment, Japan is able to feed itself, so long as the people are willing to keep their diet within the traditional simple fare of their ancestors: rice and barley, fish, vegetables and a relish, with tea and perhaps sake to complete the meal. This has been accomplished by increasing the productiveness of farms through better fertilizing and more effective irrigation methods. This increase cannot, of course, continue indefinitely, as marginal lands are already being used, but for the time being, Japan is not in need of imports to feed the population of the country.

One agricultural commodity, raw silk, is exported in large quantities. Its production is a subsidiary occupation of approximately two million farming families, and its reeling gives occupation to several hundred thousand people during the reeling season. This rural industry is the farmer's cash crop over a large part of central Japan.

Animal husbandry is making headway, especially in Hokkaido, and domestic made dairy products are more and more available in the markets. This branch of agriculture is developing slowly, as the area available for suitable pasturage is limited, due to the poor quality of the grass. The soil of Japan is largely friable and acid in character, making poor pasture grass.

Fruit in many varieties is available at moderate prices. Oranges are plentiful enough to be exported.

While restricted, from the American point of view, Japanese agriculture is in most respects in a healthy condition, is able to feed the country, and is branching out into new fields. This is contrary to much that has been stated in regard to Japanese agriculture, but it

seems to be the fact. Certain phases of Japanese rural life will be discussed later.

About one half of the area of Japan is classed as forest. Much of the forest is in mountainous regions so remote from population centers that builders find it cheaper, under normal commercial conditions, to import pine and cedar for building purposes. The imports of timber during the past few years have varied from about two-thirds to nine-tenths of the domestic production. There is also some export of timber, amounting on the average to perhaps one-seventh of the domestic production. It seems probable that Japan could, in case of necessity, house its population and provide such wooden utensils as are needed from its own production. Forestry is well developed. A good deal of pulp is imported for paper and rayon making, but the domestic paper pulp production usually far exceeds the amount imported.

Japan is poor in mineral resources. There is enough coal produced for domestic consumption. Other minerals are not available in any quantity, aside from copper, of which there are some relatively large deposits.

There is abundant water power in Japan, although the irregularity in the flow of streams, and the porous nature of much of the rock formation in the country have impeded its development to some extent. However, Japan can keep its factories operating, so far as motive power is concerned, from its own resources, taking both coal and water power into account.

Japan, however, has none or very little of the other products which enter into international commerce today. It is a country of relatively limited natural resources which are being utilized very nearly to the full. It must import raw materials for textiles other than silk and the bulk of the raw materials which enter into general manufacture on a large scale. It is driven by its growing needs into the field of international trade on a larger and larger scale.

Industrialization

Japan has only recently demonstrated in a manner to bring consternation to Western industrialists its ability to compete successfully with the most advanced nations in all lines of economic endeavor, but as a matter of fact the process of preparation for greater economic power has been under way in Japan for many years. The far-sighted statesmen of the Meiji Era realized that, if Japan hoped to become a world power, the country must develop its industrial and commercial resources—must sell its labor to pay for needed materials and must be able to manufacture within the country equipment and supplies for military use. Industrialization was first attempted along lines deemed necessary by the military, but it gradually passed beyond this

stage and became a permanent and important factor in the life of the nation. The people proved themselves to have great organizing capacity, unusual manual dexterity and sufficient mechanical ability to operate industrial machinery. The World War, due to the concentration of the industrial nations of the west on supplying the vast armies engaged in the war, gave Japanese industries a tremendous impetus, and Japanese goods produced by mass-production methods began to appear in great quantities in the world's markets. Since December, 1931, to the natural Japanese economic advantages of excellent organizing capacity, cheap, dextrous labor, and geographical proximity to large markets, has been added the advantage of depreciated currency, with the result that Japanese goods are offered at prices which have demoralized the world's markets and have brought panic to the industrialists of the West. At the same time Japanese ships are capturing a considerable share of the carrying trade of the world and Japanese capital is reaching out, particularly in the Far East, for new opportunities.

The Japanese feel that their tremendous progress in manufacturing goods for export is not due to a series of fortuitous circumstances but to hard work, technical progress and intelligent planning, and therefore they are inclined to resent the obstacles which are arising throughout the world to their commerce. They are proud of their ability to manufacture good merchandise at low prices. They ascribe, as the principal reasons for their success in meeting the industrial competition of the world, their low labor costs, their technical skill, their low capital charges, their efficient management, their depreciated yen, and, above all, their determination and enthusiasm.

The low Japanese labor costs, they point out, do not constitute a new phenomenon. Low labor cost is a continuing factor, due to the cheaper—not lower—methods of living of the Japanese people, to their patience and to their manual skill. Even therefore, before and after the depreciation of the yen, their labor costs were and will be much below those of Western countries. The Japanese are proud of their technical progress. They point with pride to the immense efficiency of their spinning and weaving mills, their rayon factories, their steamship lines, their electrical plants and their railways. They feel that their progress in technical ability is well-earned and should not be resented by other industrial nations.

Likewise they attribute their low capital and other overhead charges to intelligent planning and efficient management. But they also attribute much of their success to the national determination and enthusiasm. From the highest to the lowest, the people are united in an almost fanatical zeal for the promotion of their nation's power in the world, commercial as well as military and political. It is impos-

sible to say how much this factor contributes to the production efficiency of the Japanese people, but it undoubtedly is an important factor.

Thus the Japanese view their industrial and commercial success as something which they have earned through their own hard work, intelligence and national determination. It would be difficult to deny the truth of this thesis, although the Japanese perhaps do not give sufficient credit to the adventitious aid of their depreciated yen exchange and rarely, if ever, mention another very important factor, namely, the docility and compliance with regimentation of their labor supply.

Industrialization, however, cannot be economically successful unless adequate markets for the products of industrialization are available. And the Japanese industrialists are finding their expansion meeting with opposition in many countries, especially in regions such as British India and the Netherlands Indies, which have been considered in the past by Western industrial nations as constituting more or less exclusive markets for their own products. In addition to definite barriers to further expansion of their overseas trade, the Japanese see vast economic blocs being formed, such as those of the British Commonwealth of Nations, France and its colonies, the Netherlands and its colonies, and the United States and its insular possessions. To the extent that such blocs are successful in giving preference to trade within the group forming the bloc, Japan's opportunities for trade expansion are reduced.

Faced with these barriers and restrictions upon their further economic expansion, the Japanese feel that the world frowns upon their hard-won success in industrialization and commercial development, just as the world has in the past frowned upon their territorial expansion and upon their attempts to relieve the pressure at home by emigration to other lands. At the same time, because of their rapidly increasing population and the dearth of their natural resources, they feel that economic expansion is of vastly greater importance to them than to other nations, such as the United States, which have lower natural rates of population increase and much greater natural resources upon which to rely.

Higher Living Standards

A decided factor in the life of Japan today is the rising standard of living. This factor is difficult to define accurately. It is however an active force which affects all phases of life in the country and goes hand in hand with a higher moral tone in Japanese society. This moral development has accompanied the economic development elsewhere noted in this report. Statistical data on living standards are

not readily available, but it may safely be said that the average Japanese family lives better today than ever before. There is a greater variety of food, a wider choice of clothing and in the larger cities, much better housing than was the case a generation ago. One indication of higher living standards is education. According to the Japan Year Book, school attendance, including attendance at higher institutions of learning, increased from 10,435,364 in 1920–21 to 12,571,748 in 1930–31, the latest year for which full statistics are available. This is about what would be expected, as the population, according to the same authority, increased from 55,963,053 in 1920 to 64,450,005 in 1930. However, the attendance at Universities increased from 21,915 in 1920–21 to 89,607 in 1930–31. The last figure is somewhat misleading, as a number of schools were raised to University grade in the meantime; but after making all allowances, there has been a tremendous growth in the number of young persons seeking higher education. The higher technical schools also show a phenomenal growth, although the figures are not so startling as those of the Universities. This indicates that the nation is able to support a higher educational standard and that more families are in a position to give a broader education to their children. The higher standard of life, both moral and material, requires a higher income for its support.

Another illustration is to be found in the attention now paid to the peasantry. Much has been written lately of the hard lot of the rural classes in Japan. Their lot is hard, but it is only recently that it has become an object of interest or concern to the country at large. The northern districts of Honshu, the Main Island of Japan, for example, are mountainous and unfertile. The rural inhabitants of this region have always been close to the margin of subsistence. Unfavorable crops have meant privation for the majority and starvation for many. Their moral standards have been on a level with their living conditions. While it would not be correct to say that families have counted on the sale of their daughters for income, it is none the less true that the amusement centers of Tokyo and other large cities have been largely recruited from young girls from the Northern prefectures. The extreme poverty and distress which has faced them made girls willing to accept any opportunity to escape from home, while their parents were willing to part with them when it meant money in the home. Many a well known drama and story in Japan is woven around conditions such as this. In the autumn and winter of 1905–1906 there was a famine of considerable proportions in this region. The newspaper accounts of the time indicate that it was severe. There is evident, however, none of the moral indignation that accompanies the accounts of the distress now raging in the same region. The Government has taken measures to feed the population

and to prevent the traffic in girls, a condition which aroused little or no comment a few years ago.

The public concern over rural conditions seems to indicate a higher moral standard on the part of the public. It seems improbable that rural distress in Japan is greater now than it was a generation ago. The explanation appears to be that improved conditions throughout the country have raised the public tone, so that a situation which was received with indifference by a former generation, now arouses the moral sense of the nation.

This rural distress has been to very great extent the backbone of cheap industrial labor in Japan. Grinding poverty has driven young people to the cities. Girls could be obtained to work in mills and factories and boys could be recruited as day laborers for what appears to us to be a pittance. Ordinary labor can be obtained for from 45 to 50 cents a day, and skilled workmen in the textile trades for less than one dollar a day, plus certain bonuses which may amount to 25 per cent in some cases. These are undoubtedly very low wages. They represent, however, the difference between actual starvation at home, and the comparative comfort of a barrack-like boarding house in a city. The workers are really better off than they would be on the barren hillsides where they were born. They have a standard of living which is remarkably cheap, and while restricted from our point of view, it is affluence compared to the penury which drives them from the country. The abundance of this type of labor—hardy, used to cheap living and discipline—has enabled Japan to build up its present industrial plant, and to invade world markets with its products.

Industrialization has enabled the Japanese people to raise their living standards. It is true that Western standards have risen at the same time, and that present living conditions in Japan are considerably below those in Europe or America. Still, viewed from the Japanese standpoint, there has been a decided improvement in the life of the people in the past generation, an improvement which is still continuing, which the Japanese are determined shall not stop, and which is an important element in their drive for foreign trade.

Conclusion

The above résumé attempts to visualize the situation in Japan as the Japanese themselves see it. The Japanese see themselves as an overpopulated nation, but as a nation of active, intelligent and progressive people, anxious to find a "place in the sun", and to raise their standard of living. At the same time they see themselves as badly handicapped by limited workable natural resources and by a lack of economic opportunity within the territories which they control. They have tried emigration and colonization, but without any considerable success. They also tried industrialization, and have been

successful through a combination of patient, hard work, intelligent planning and fortunate circumstances, only to find the world gradually closing its markets to their products.

It cannot be doubted that these ingredients form a highly explosive mixture, and, also, that the nations of the world owe it to themselves and to Japan to endeavor to formulate policies which will prevent the mixture from exploding. It is possible that the solution of the problem can be found in the Christmas message of the Secretary of State:

"Peace can be obtained by bringing contentment to the peoples of the world. They can be made content by assuring the satisfaction of their needs, removing from them the oppressive fear of hunger and privation. . . . If we have the wisdom and imagination to do this we shall then satisfy the age-old longing for plenty and bring into being its corollary, peace."

The satisfaction of Japanese needs will require, primarily, more economic elbow-room for the nation. Manchuria will probably supply the needed opportunities for some fifteen or twenty years, but after that time it will certainly be necessary for them to extend their economic "life line." They can, as in the past, do this by means of military force, but further Japanese military adventures in the Far East would very probably result in a tremendous clash with the Western powers, in which, presumably, Japan would be crushed. It is not likely, however, that such a vigorous nation as Japan would remain crushed for more than one or two generations, after which the process would have to be repeated. The problem confronting Western nations, therefore, when reduced to its simplest terms, would appear to be whether to endeavor to preserve Western interests in the Far East for a generation or two by defeating Japan in a war, or whether to endeavor to satisfy Japan's urge for economic expansion by granting larger markets and greater opportunity for Japanese enterprise in the territories controlled by the Western nations. The second alternative, of course, would be accompanied by steady pressure to preserve our policies relating to the Far East and to demilitarize the Japanese nation.

It will not be an easy task for the world to find economic elbow-room for a population increasing as rapidly as that of Japan, but on the other hand it cannot be expected that the urge for economic expansion in Japan will continue to be so strong in the future as it is at present. A rising standard of living will tend to check the birth rate and will diminish Japan's powers of economic competition, with the result that Japan's position in the economic world will eventually tend to become stabilized, or to approximate Western standards.

Respectfully yours, JOSEPH C. GREW

711.94/1017

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

No. 1188 TOKYO, February 27, 1935.
[Received March 23.]

SIR: With reference to the Department's strictly confidential instruction No. 671 of January 21, 1935,[48] I have the honor to report that Mr. Shigeru Yoshida called on me today on his return from the United States and in the course of our conversation he told me of his talk with you, Mr. Secretary, his account tallying very closely with your memorandum of January 15 recording that conversation. He was clearly impressed by your suggestion that a "holiday" from unnecessary, untimely and impractical talking in our various countries in order to afford an opportunity for some calmer thinking would be the better part of wisdom. Mr. Yoshida told me that he heartily concurred with your views in this respect and that he had recommended them to Mr. Hirota with especial reference to the spokesman of the Foreign Office. He said that the primary function of the spokesman is obviously to speak and that the spokesman is under constant pressure from the press correspondents to fulfil that function, but Mr. Yoshida had pointed out to Mr. Hirota that under present circumstances public statements concerning our international relations should be reduced to a minimum. The seed which you planted therefore seems to have fallen on good ground.

Mr. Yoshida furthermore told me of his talks with Senator Robinson,[49] Mr. Castle,[50] Colonel House[51] and many other people in the United States. He came away with the impression of a general misunderstanding and distrust of Japan and Japanese intentions and he feels that practical measures are necessary to overcome this adverse attitude in the United States. He proposes to see many people in Japan to explain to them the American point of view and to make recommendations along the following lines:

1. There should be less talk and more constructive action which should be aimed at improving Japan's international relations in a practical way.
2. With regard to the question of naval ratios, the Japanese have been consistently basing their demand for parity on the hypothesis of a war with America. Naturally, if such a war should come, Japan

[48] Not printed; it transmitted the Secretary's memorandum of January 15, p. 840.

[49] Joseph T. Robinson, Senator from Arkansas, chairman of the Senate Majority Conference and member of the American delegation to the London Naval Conference in 1930.

[50] William R. Castle, Jr., formerly Ambassador to Japan and Under Secretary of State.

[51] Col. E. M. House, member of the American delegation to the Paris Peace Conference in 1919.

would want to win it, but so would America, and if the hypothesis of an eventual war is taken as a basis it is perfectly natural that the United States should not wish to cede parity to Japan. The obvious way out, therefore, is to find some basis for a naval agreement other than the hypothesis of a possible war between Japan and the United States. If the matter is approached along other lines Mr. Yoshida thought that an eventual solution might be found. He did not, however, specify what line of approach he had in mind, if any.

3. Mr. Yoshida thinks that the primary and most important policy for Japan to follow at present is to develop improved relations with China on a constructive basis with the cooperation of other Powers. Only thus can mistrust of Japan's intentions be set at rest. He said that he had strongly advocated this policy to Mr. Hirota and had asked that he be allowed to continue his tour of inspection into China so that he might study the situation and make concrete recommendations on his return. He said that Mr. Hirota was considering the matter.

In the course of further conversation Mr. Yoshida said that he had brought to Ambassador Saito in Washington a message from Ambassador Matsudaira in London to the effect that the former talked too much. Mr. Yoshida said that he had delivered this message to Mr. Saito and that Mr. Saito, to his surprise, had entirely agreed with him. It will be interesting to see whether Mr. Matsudaira's advice likewise falls on good ground.

In this connection there is enclosed a memorandum [52] of a recent conversation between Mr. Neville [53] and Count Kabayama [54] on the subject of Mr. Yoshida's observations in the United States.

Respectfully yours, JOSEPH C. GREW

894.00/541

The Secretary of State to President Roosevelt

WASHINGTON, March 13, 1935.

DEAR MR. PRESIDENT: You may recall that I submitted to you, with my letter dated January 22, 1935, a despatch from Mr. Grew, the American Ambassador to Japan, on the subject: "The Importance of American Naval Preparedness in Connection with the Situation in the Far East." [55]

There are enclosed a copy of a further despatch from Mr. Grew, on the subject: "Urge Toward Expansion in Japan," and a digest thereof.[56] In his previous despatch Mr. Grew urged that the United States "be adequately prepared to meet all eventualities in the Far East."

---

[52] Not printed.
[53] Edwin L. Neville, Counselor of Embassy in Japan.
[54] Member of the Japanese House of Peers.
[55] Despatch No. 1102, December 27, 1934, p. 821.
[56] Despatch No. 1156, February 6, p. 843; digest not printed.

In his most recent despatch Mr. Grew discusses certain social and economic forces and conditions which apply to the Japanese and give rise to the movement toward economic and political expansion.

Mr. Grew presents the thought that the United States, while preparing itself to meet any eventualities in the Far East, might also assume a sympathetic and cooperative attitude toward Japan based on larger considerations reaching into the future. It is our belief that, since the present Administration came into office, we have endeavored, wherever practicable, to be cooperative toward Japan.

It is believed that perusal of the digest and, if time and opportunity permit, of the despatch itself will be found helpful.

Faithfully yours, CORDELL HULL

711.94/1034

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

[WASHINGTON,] March 27, 1935.

Reference, Tokyo's telegram 64, March 27, 6 p. m.,[57] paragraph 4.

". . . the Younger Japanese naval officers have freely spoken of eventual war with the United States as a foregone conclusion on the ground that Japan has certain definite policies in China which the United States will oppose and that the result will be an inevitable conflict. One of the officers who so expressed himself is aide to Admiral Kenji Kato."

COMMENT:

No matter who says it or who fails to say it or who may deny it, it is a fact "that Japan has certain definite policies in China which the United States will oppose and that the result will be an inevitable conflict." Whether the "inevitable conflict" goes to the extreme of war will depend upon many factors of time and circumstance. Over some of these factors governments may have some measure of control; over other of these factors no government will have any substantial measure of control.

Japan has certain definite policies not only with regard to China but with regard to the whole world. In addition, the Japanese nation is embarked upon lines of activity which are natural and which will be proceeded with regardless of the formulation or the conscious following out of a "policy." And the same is true of the United States and the American people.

The ideas of the Japanese people and the people of the United States are already at a number of important points in opposition.

---

[57] Vol. I, p. 68.

The economic activities of the two nations are bringing our two peoples more and more into competition. The moral and the political objectives of the two countries are already in conflict.

In regard to China, Japan is already opposing the United States and the United States is already opposing Japan.

Whether and at what point or under what circumstances these differences, this competition, this opposition, this conflict may produce war it is impossible to predict.

The people and Government of the United States want peace. They do not want war. But their desires are not limited to peace or to avoidance of war. They want foreign trade; they want to enjoy various and sundry rights everywhere and at all times; they believe in the making of laws and of contracts and of treaties, and they desire that these, when made, be respected; they have their own concepts of a regulated world in which this and other nations can exist with reasonable degrees of comfort and of security.

The people and Government of Japan are not so solicitous about peace. They are not so intolerant of the thought of war. They too want trade; but they do not believe as firmly as do we in regulation by law and by contract and by treaty; nor are their concepts of laws and contracts and treaties and of respect which should be given them identical with ours. They want control over lands and natural resources which at present belong by law and by right of possession to other peoples; they want enhancement of Japan's prestige and influence and authority; they want to create and develop a great imperial régime in and among peoples of the Far East the essence of which will be a Japanese hegemony and perhaps an extended Japanese sovereignty. They know what they want and they are willing to press toward their objectives even at the cost, if necessary, of war.

It takes two to keep the peace. No matter how much the people of the United States may desire peace and be willing to do to avoid war, if at any time the Japanese decide that there shall be war there will be war.

War between the United States and Japan is not "inevitable". Any one of a number of things might happen which would eliminate or at least indefinitely put off the possibility of such a war. For instance: a civil upheaval of sufficient intensity in Japan, a war between Japan and Russia or between Japan and Great Britain in the course of which Japan was severely weakened.

The fundamental concepts of nations do not change rapidly. The concepts and the objectives of the Japanese being what they are today, and their mental and physical vigor being what they are, and their morale being what it is, there is substantial likelihood that, barring unpredictable political accidents or acts of God, the time

will come within the next few years when the Japanese people will feel strongly moved to defy the United States and cross swords with us. At such a moment, the only thing which would deter them would be the conviction on the part of those persons who have ultimate authority in Japan that Japan would have no chance of success and would be doomed to decisive defeat if the trial were made.

For that reason, the best chance for peace as between the United States and Japan must lie in the possession by the United States of machinery of military defense strong enough to deter the Japanese from daring to attack.

No conceivable concessions on the part of the Government and people of the United States would have any conclusive effect in regard to this problem. Even if we gave up all thought of overseas commerce, even if American interests and American nationals withdrew or were withdrawn entirely from the Far East, even if the United States endeavored to make itself a hermit nation, it would still remain a fact that the psychology of the Japanese today is a psychology of adolescent imperialism, that Japan is penetrating—with cheap goods—foreign markets everywhere and therefore in this country, and that there are many thousands of Japanese nationals resident in this country whose presence is an irritant in the localities in which they reside and whose rights and persons Japan is bent upon protecting.

It is absolutely essential that we take stock of Japan today as Japan is.

The *politik* of force—a manifestation and instrument of imperialism rampant—upon which Japan relies and will increasingly rely can be dealt with effectively insofar as the problem of the national security of other nations is concerned only by the imposing of obstacles or the interposition of force. The people of the United States are in possession of intellectual and material resources such that they can create the obstacles or the instruments of force which are, more and more, imperatively called for in this situation. The American Government should see to it that these resources are adequately employed toward those ends.

This country is not going to embark upon any aggression against Japan. There can be no absolute assurance that Japan will not embark upon an aggression against us. But the likelihood of there being aggression and, in consequence, war will be diminished by, and only by, preparedness on our part of such nature and proportions as will tend definitely to discourage adventuring by Japan into acts of aggression against the United States.

S[TANLEY] K. H[ORNBECK]

894.00/546

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

No. 1332 TOKYO, May 31, 1935.
[Received June 15.]

SIR: I have the honor to report the creation on May 10, 1935, of two new advisory bodies of the Japanese government, both subsidiary to the cabinet, designated respectively as the Naikaku Shingi Kai and the Naikaku Chosa Kyoku. Naikaku Shingi Kai is translated literally as "cabinet deliberative body" and is rendered in the English language newspapers by a number of titles including "national policy council", "cabinet advisory board", and "cabinet inquiry council"; usage has not yet become uniform. Naikaku Chosa Kyoku is translated "cabinet investigation bureau".

The Cabinet Deliberative Body (Naikaku Shingi Kai) was established by Japanese imperial ordinance number 118 of May 10, 1935, published in the official gazette on the following day. The ordinance states that the body shall be under the direction of the cabinet, and shall investigate and deliberate upon such important policies as may be referred to it by the cabinet. The premier is president, the Emperor designates a cabinet minister as vice president, and the other members (who shall be not more than fifteen) are also appointed by the Emperor. The premier is given authority to determine rules for the submission of questions to the body. The final article of the ordinance states that the general affairs (*shomu*) of the Cabinet Deliberative Body shall be managed by the Cabinet Investigation Bureau. This article leaves much to be desired in definiteness of meaning. The word *shomu* is the same word which is used in the title of various general affairs bureaus of departments of the "Manchukuo" government, where the experience of the last few years has been that these bureaus are the powerful policy-determining organs of the departments to which they are nominally subordinate.

The official gazette for May 13, 1935, announced the appointment of the finance minister, Mr. Takahashi, to the position of vice president of the Cabinet Deliberative Body, and named fifteen other men as its members. These are Viscount Admiral Saito, former premier; Takio Izawa, formerly governor general of Taiwan, Eiichi Baba, former president of the legislative bureau, Viscount Nobumitsu Aoki, and Baron Nagatoshi Kuroda, all four members of the house of peers; Seihin Ikeda, managing director of the Mitsui interests; Kenkichi Kagami, president of the Nippon Yusen Kaisha and member of the house of peers, who is associated with the Mitsubishi interests; four Minseito members in the persons of Baron Tatsuo Yamamoto, former cabinet minister, Takukichi Kawasaki, member of the house of peers,

formerly chief cabinet secretary and president of the legislative bureau, Keikichi Tanomogi, former parliamentary vice minister of communications, and Kojiro Tomita, member of the lower house; Kenzo Adachi of the Kokumin Domei party; and three Seiyukai men who have lost their party membership by reason of serving under the present administration contrary to Seiyukai orders: Rentaro Mizuno, former cabinet member, Keisuke Mochizuki, also a former cabinet member, and Kiyoshi Akita, former speaker of the lower house and parliamentary vice minister of communications.

At the present time, then, the Cabinet Deliberative Body, under the leadership of the premier and the finance minister, consists of the former premier, four distinguished peers, one representative each for the two largest business interests, four leaders of the Minseito party, the leader of the smaller Kokumin Domei party, and three politically experienced men whose cooperativeness with the government has cost them their membership in the Seiyukai party. The appointees are of cabinet caliber. Experience in politics is their common qualification, and political considerations appear to have stood high in determining their choice. The body stands as a sort of board of directors for the government. Neither the army or the navy is represented.

The Cabinet Deliberative Body held its first meeting on May 17, 1935. The session was given over to matters of organization. Cabinet members were in attendance, as is their privilege under the ordinance creating the body. A regular monthly meeting was decided upon.

Meantime the Cabinet Investigation Bureau has progressed more slowly. Established by imperial ordinance number 119 of May 10, 1935 (published in the official gazette of May 11), its work is defined as the investigation of important policies, the study of proposed governmental actions as directed by the premier, and the general affairs (*shomu*) of the Cabinet Deliberative Body. Its most important power is the authority to call upon any department of the government for any information required. The bureau is stated to be under the premier's direction and to comprise a director, a secretary, an assistant secretary, fifteen investigators, and twenty low-rank members. The bureau is to maintain a standing executive committee and also a standing committee of experts. The normal term of service is two years. Shigeru Yoshida resigned from his position as chief secretary of the cabinet to accept appointment as director of the Cabinet Investigation Bureau (official gazette, May 13, 1935). The official gazette for May 27 announced the following appointments as investigators: Tatsuo Yamada and Hideo Matsukuma (finance department), Yasuya Kohama and Hiroo Wada (department of agriculture and forestry), Kuninosuke Fujita (industry rationalization bureau), Issei Iinuma (governor of Saitama prefecture), Keinosuke Nakamura and Shigeyuki Tanaka (home affairs department), Gembei Uchida (National resources

bureau), Kiwao Okumura (communications department), Shin Hashii (department of commerce and industry), Mikine Kuwabara (Tohoku rehabilitation bureau), Colonel Sadaichi Suzuki (army), and Captain Kisuke Abe (navy). Several features of these appointments should be noted. First, the men named have been chosen more for their qualifications as specialists than for their rank. Second, they are taken from government circles rather than from the outside, and to that extent the bureau is an organ of the bureaucracy. Third, the army and navy are represented, but by officers of relatively low rank.

The ordinance setting up the Cabinet Investigation Bureau mentions that its composition shall include also twenty low-rank members. The appointment of these members has not yet been announced, nor are the choices of particular importance. As defined by the civil service regulations of Japan, these members can be expected to be persons of annual salary of fifteen hundred to two thousand yen whose service will be in assisting the researches of the investigators. The bureau, in fact, is so organized that the investigators have ample assistance to make their work really effective. A first formal meeting was held on May 30 but no business was done.

The tendency so conspicuous in recent years for states to develop nationalistically and for their governments to superimpose new agencies of national planning to meet the urgent need of coordination has blossomed in Japan in the Cabinet Deliberative Body and the Cabinet Investigation Bureau. Both advise the cabinet. The deliberative body is a political board of directors whose advice on national policy is valued. The investigation bureau is a commission of experts, organized for active research in technical matters growing out of national policy. National planning is its field.

Influences other than the necessity of nationally planned coordination in economic activities have contributed to the present innovation in Japan. Public dissatisfaction with the manner in which the political parties have operated is well known, and this has had its effect in bringing the new organs into existence. At the time of the promulgation of the constitution in 1889 Japan was not ready for representative government in reality, and a sense that extra-constitutional institutions must be looked to for guidance has never since completely disappeared, although there could be no reasonable hope of duplicating the remarkable group of elder statesmen of the Meiji period. Particularly since 1931 the prestige of the political parties has suffered. Partly because of their notoriously bad record, partly because of military pressure against them, and partly because of the ingrained distrust of representative government as an alien thing, the political parties have been losing such popular faith as they previously had possessed. The Okada cabinet, it will be recalled, is not a cabinet of the majority party of the lower house. Of the 466 seats of the lower

house, the Seiyukai at the present time holds 257 but has not been given an opportunity to form the government, and because of this treatment it has not permitted its members to accept cabinet positions. Several Seiyukai men who did so were read out of the party.

It is difficult to see how the Seiyukai could be complaisant. The party's vision is no doubt accurate when it sees danger in the new bodies. Whether the Minseito, which is lending its support, will later regret its action remains for the future to answer.

The army and navy have meantime stepped cautiously. As enemies of the parties they are in principle favorably inclined to non-party governmental bodies, but at the same time both the army and the navy would probably prefer to rely directly on their privileged position under the constitution than on these new institutions. The fact that the army and navy are represented in the investigation bureau and not in the deliberative body suggests that they desire to be directly informed regarding all the technical research connected with national planning but do not wish to be committed by the decisions of the new organ of political advisers as they would be by implication if participating in both. They are by nature suspicious of politics and unsure of their ability to cope with politicians on the politicians' ground. The army and navy appear to be willing to work with the experts but not with the politicians.

Many questions about the Cabinet Deliberative Body and the Cabinet Investigation Bureau can be answered only with the passage of time. Starting with a very real need for coordinating the work of the various departments, for which the cabinet was deemed inadequate, the government has launched two new bodies and is feeling out the way for them. They have been created simply by the Emperor's ordinance power, presumably in accordance with an article of the constitution which states that the Emperor determines the organization of the different branches of the administration. Not contemplated in the constitution, these important organs have been established at a time when their operation can be expected to have serious effect upon the development of political parties in Japan. On the other hand, they could be as simply terminated when the need for their existence is considered to be past. It is doubtful whether the government itself has a clear idea of the future of these bodies, and it is probable that their future will depend upon the degree of their success. Public statements of officials and others, the uncertainty of the press, conversational remarks to members of the Embassy staff—all confirm the impression that the functions of the two new organs remain to be worked out in practice.[58]

Respectfully yours, JOSEPH C. GREW

[58] In despatch No. 1816, May 11, 1936, the Ambassador reported an Imperial ordinance abolishing the Naikaku Shingi Kai (894.00/649).

500.A15A5/440

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

No. 1373 TOKYO, June 27, 1935.
[Received July 13.]

SIR: I have the honor to report that recent intimations have been conveyed to me which, if correctly interpreted, may be of considerable importance in revealing the real attitude of the Japanese naval authorities toward and beyond the next Naval Disarmament Conference. Contrary to the views as expressed in the press to the effect that the navy desires an early conference and maintains its policy of last year entirely unchanged, there is reason to believe that these views may already be undergoing modification.

On June 24, three days ago, the Naval Attaché had a talk with Admiral Seizo Kobayashi, a member of the Supreme War Council, and often mentioned as the leading candidate to succeed the present Minister of the Navy, Admiral Osumi. In speaking of the next naval conference Admiral Kobayashi said that he was of the opinion that it would be held about November of this year, but that there appeared to be no chance of concluding a new naval treaty at that time. He said that while the conference had to be called it would be better in his opinion to postpone the real efforts toward a new treaty for at least a year, perhaps two. He gave as his reason the disturbed conditions prevailing not only in Europe but throughout the world. He said that Japan could not possibly compete in a naval building race with the United States and did not wish to do so. Admiral Nomura also expressed the opinion that this would be a very bad year for Japan in a naval conference because Japan is being criticized so much abroad for her policy in China and on account of serious internal questions at home. To the suggestion that the conference might meet and then agree to a postponement, Admiral Nomura replied that the postponement could be arranged through diplomatic channels.

The idea of waiting a year or two before making the next real effort toward concluding a new naval treaty has been hinted at several times recently by Japanese naval officers of high rank, including Admiral Hasegawa, Vice Minister of the Navy, and some retired officers. Although officers on active duty have in general avoided reference to this subject the reason for this, in the opinion of the Naval Attaché, is that the more conservative and more broad-minded group of higher ranking officers, which includes Nomura, Nakamura, Nagano and now Kobayashi, hope that as time goes on they will be able in some way to modify the demands of the younger officer group now supported by Admirals Kanji Kato, Suyetsugu, Takahashi, Yamamoto and others, who wish to free themselves of all treaty restraint and

build a navy to suit their own wishes if they cannot achieve their object of parity and the abolition of the ratio system. There is some reason to believe that Admiral Osumi, Minister of the Navy, may have appeared to support the latter group more for tactical reasons and to preserve peace and order in the fleet than because of a thorough conviction that it is in the best interests of Japan to do so.

This growing consideration of the idea of postponement appears to be supported by both the conservative and the younger chauvinist groups within the Japanese navy, but for different reasons. The older heads hope that delay will furnish an opportunity for the younger element to realize more clearly the dangers of a non-treaty status for Japan and the hopelessness of engaging in a naval construction race with the United States. On the other hand the chauvinist element may well desire postponement and delay in the hope that Japan's position may be improved through a lessening or modification of our own building program brought about by the pressure of what they believe to be a large pacifist sentiment in the United States or through failure to obtain the necessary appropriations in the Congress.

With this in mind it is clear that this postponement and delay can be turned to our advantage only if we continue to build up to our full treaty strength and also if we make it obvious that we intend to preserve the present ratio with Japan regardless of cost or other considerations, even after December 31, 1936, provided no further treaty has been signed by that time. I wish to re-emphasize the opinions expressed in my despatch* of last December discussing the importance of American naval preparedness, with special reference to the comments on page 13 thereof. By pursuing such a policy we would also be giving support to the Nomura–Nagano–Nakamura–Kobayashi group in demonstrating to the younger element the hopelessness of the situation so far as parity with the United States is concerned. Once won over to this realization there has been ample evidence in the past to show that public opinion, which has been assiduously groomed to demand parity and the abolition of the ratios, might then be remoulded to accept the new situation.

Respectfully yours, JOSEPH C. GREW

894.001H61/75

Memorandum by the Secretary of State

[WASHINGTON,] August 5, 1935.

The Japanese Ambassador called accompanied by Mr. Yoshizawa, the new Counselor who has just arrived in Washington, and introduced him to me.

---

*Despatch No. 1102, December 27, 1934. [Footnote in the original; despatch printed on page 821.]

The Ambassador then proceeded to launch into a statement complaining in behalf of his Government of two caricatures, and one in particular, of the Emperor of Japan appearing in the August, 1935, number of *Vanity Fair*, an American publication. The Ambassador said that of course he realized to a more or less extent the difference in practices, customs and laws in Japan and in the United States; that on the other hand the people of Japan had the greatest possible or imaginable reverence for their Emperor. He implied even stronger feelings of adoration of the Emperor on the part of the people of Japan than reverence,—in fact he implied what is seen in the press from time to time, that the people of Japan are taught that the Emperor has special divine origin and relationships, to say nothing of divine rights as the supreme ruler of Japan; that in these circumstances he hoped I could understand and appreciate how sensitive the people of Japan were with respect to any apparent criticism or reflection upon the Emperor, even though not remotely so intended. He went on to say that this publication had caused and was causing serious repercussions among the people of Japan; that in any event he hoped I might see my way clear to say publicly, after making suitable reference to this occurrence, that I was very sorry about the incident and hoped the author of the caricature could be induced not to repeat it. The Ambassador then said he was informed reliably this morning that Mr. Crowninshield, the publisher of *Vanity Fair*, had in New York just given out a statement to the correspondents of Japanese newspapers in which he disclaimed in the strongest possible language the slightest idea or purpose or disposition to give offense or to displease the Emperor or the people of Japan in connection with the publication complained of; that his publication was conducted entirely in a more or less frivolous, good-natured and humorous manner; that this was the policy of the paper and that this and many other countries at least so understood and so treated such publications and publicity; that of course, he was very sorry that any person in Japan had taken umbrage, and sorry generally for the occurring of the incident.

I replied by saying that I had read the newspaper accounts of this incident which the Ambassador complained of and that I had seen in the press where the Ambassador was headed this way today; I said jocularly that I hoped the Ambassador was not as hot as the heat through which he had come to make the complaint; that I had read also a news report of a public statement given out by Mr. Crowninshield in which he had emphasized the absolute lack of the slightest disposition to give offense and also the fact that such caricatures were treated in the same light and jocular spirit by those who were made the subject of the same in this country in particular. I further stated

that of course it was in some instances as difficult for the people in another country to fully understand the widely differing viewpoints, habits, customs and laws, between their country and this country, as it was for the people of this country to grasp accurately the customs and laws of the people of another country differing equally widely from our own; that, for illustration, it was not fully realized in many parts of the world that every language on earth is spoken in this country; that people originally came here from everywhere to escape some sort of alleged oppression or denial of rights and privileges pertaining to religious, racial or other conditions and considerations; that the fullest and widest freedom of speech, of the press, of religion and similar privileges exist in this country as they do perhaps in no other; that in these circumstances it was very difficult for the people of another country to understand why this Government should not and could not promptly suppress a given act or utterance complained of by another country, such as the caricature in the instant case. I stated then that of course I and a large percentage of the people of this country fully understood and appreciated the great reverence in which the Emperor was held by the people of that country as I did the very different habits, customs and laws of Japan with respect to publications deemed undesirable by the Government; that in any event I was always sorry when any incident occurred that was taken amiss or was the cause of displeasure on the part of any other government. I then said that in a country of free speech and free utterance generally, like the United States, it was very important that the Government should not go too far, even if it were so disposed, in undertaking to curb acts or utterances of individual citizens over which it had no control, lest more harm than good should result in the way of resentment and bitterness. I made no commitment as to just what I would say to the public in connection with the special request of the Ambassador as aforesaid.

C[ORDELL] H[ULL]

894.001H61/73c : Telegram

The Secretary of State to the Minister in China (Johnson) [59]

WASHINGTON, August 6, 1935—3 p. m.

234. 1. On August 5 the Japanese Ambassador called in regard to the publication in *Vanity Fair* of a caricature of the Emperor of Japan.

---

[59] Substantially the same telegram was sent to the Ambassador in Japan as No. 123, August 5, 6 p. m. (894.001H61/73b).

2. Subsequently, the Department made available to the press a statement as follows:

"The Secretary of State, in replying to the representations of the Ambassador of Japan relative to material which appeared in the current issue of an American periodical, referred to the reported statement of the publisher denying any purpose to give offense.

The Secretary then said that he is always sorry when incidents occur or situations arise which are taken amiss and occasion misunderstanding between this and any other country."

3. For your particular information: any reports which may affirm that the Secretary made apology or any statement tantamount thereto are contrary to fact.

4. Repeat to Nanking and Shanghai.

HULL

894.001H61/74 : Telegram

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

TOKYO, August 7, 1935—5 p.m.
[Received August 7—5 : 57 a.m.]

164. Department's 123, August 5, 6 p.m.[60]

1. The objection to the *Vanity Fair* caricature seems to have originated with Japanese newspapers.

2. Although certain published telegrams have accurately given the contents of the Secretary's statement quoted in paragraph 2 of the Department's 123, August 5, 6 p. m., front page headlines in most of the Japanese newspapers state that the Secretary expressed regret.

3. The affair was featured in the press for 3 days and has now practically disappeared.

4. In an informal remark to me today when I was at the Foreign Office for another purpose the Vice Minister for Foreign Affairs stated that the Foreign Office does not wish to make a serious issue of the matter and implied, though he did not say so, that taking up the question in the first place was not in accordance with the wish of the Foreign Office.

5. The affair will be discussed in a despatch to go forward by pouch August 10.[61] In the meantime, the Embassy has refrained from commenting on the matter.

NEVILLE

---

[60] Not printed; see footnote 59, p. 865.
[61] Despatch No. 1426, August 9; not printed.

894.001H61/76 : Telegram

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

PEIPING, August 8, 1935—2 p.m.
[Received August 8—9 : 37 a.m.]

406. Following from American Consul General at Shanghai.

"August 7, 4 p.m. Referring to the Legation's telegram of noon today, Vice Consul Terasaki personally and informally requested suggestions as to the best manner to prevent August number of *Vanity Fair* being circulated in China. I informed him that I had no suggestions to make, that I always disliked for Americans to do anything to offend Japanese susceptibilities but in this case it would be necessary for me to endeavor to protect American interests though I would hear any suggestions he might have to make."

JOHNSON

894.001H61/77 : Telegram

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

PEIPING, August 9, 1935—3 p.m.
[Received August 9—9 : 15 a.m.]

408. Legation's 406. Following from American Consul General at Shanghai.

"August 8, 2 p.m. Referring to my telegram of August 7, 4 p.m. Japanese Vice Consul called today with the suggestion that I should write to the Chairman of the Municipal Council and request the police to suppress the copies of *Vanity Fair* that have been delivered and to prevent the sale of other copies. I informed Terasaki that I did not consider that this could be done and at the same time protect American interests."

JOHNSON

894.001H61/86

Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs of a Conversation With the Counselor of the Japanese Embassy (Yoshizawa)[62]

[WASHINGTON,] August 10, 1935.

Mr. Yoshizawa stated that he assumed that I had seen reports in the press in regard to an incident in Seattle where an individual dressed to represent "the Mikado" walked through the streets

[62] Memorandum initialed by Stanley K. Hornbeck, Chief of the Division of Far Eastern Affairs; notation added by Mr. Dooman: "Mr. Yoshizawa subsequently (but on the same day) called on Mr. Hornbeck and made substantially the same statement to Mr. Hornbeck."

pulling a cart in which there was seated an individual dressed as "the Emperor of Ethiopia". He said that the Embassy had just received a report from the Consul at Seattle, and that he wished to acquaint me with the circumstances of the case, which were as follows:

The Consul was informed a few days ago by a reporter of a local newspaper (apparently the *Seattle Post Intelligencer*) that a "stunt" similar to that which was actually carried out was under contemplation, and the Consul was asked whether it would be regarded by the Japanese as offensive. The Consul immediately got into touch with members of the Japan Society and of the Chamber of Commerce, and representatives of those two bodies took the matter up with those who were planning to carry out this performance, and a promise was obtained that no burlesque would be made of the Emperor. Nevertheless, the performance was carried out as originally planned, and although it took place at an early hour yesterday morning (at about half-past six or seven o'clock) a large number of people were present due to the publicity that had already been given to the plans. The Japanese Consul immediately sought an interview with the Mayor of Seattle, and it was not until about ten o'clock in the evening that he was able to speak to the Mayor. The Mayor stated that he was too busy to go into the matter at that time, but that he would endeavor to see what he could do.

Mr. Yoshizawa said that the incident had been reported in press despatches to Japan by local Japanese correspondents, and he was somewhat apprehensive in regard to the reaction which such reports would have in Japan. He considered it extremely unfortunate that the incident should have occurred on the west coast, where there are a large number of Japanese among whom there would certainly be some who would be disposed to become excited over the affair. It was his purpose this morning in coming to the Department to inform us in regard to the circumstances of the case, and it was not his intention to register a protest. However, he considered it most unfortunate that incidents of this kind should occur, and he thought it important that responsible persons should give thought to the effects of incidents of this character upon relations between the United States and Japan. However, he felt hopeful that the incident would be satisfactorily adjusted locally.

I said to Mr. Yoshizawa that I felt certain that the incident in Seattle was a result of the publicity that had been given to the *Vanity Fair* case, and that I concluded from reading press accounts that childish mischief was the motive rather than malice. Mr. Yoshizawa felt, however, that the persons responsible were inspired by a "spirit of maliciousness". It was his belief that the affair would be so regarded in Japan.

I stated that there was of course no way in which the Department could take any action against the persons involved. I hoped, therefore,

that the Embassy here would not give press correspondents any reason to believe that the Embassy had made representations to the Department. I suggested that if the Embassy considered it necessary to say anything at all to press correspondents that it should say that the Embassy had informed the Department of the contents of the report received from the Consul, and that it was hoped that the matter would be settled between the Consul and the Mayor of Seattle. Mr. Yoshizawa agreed that the press should not be encouraged to believe that any protest had been made, as in fact he had not made any protest, but he felt that it would be necessary to inform the Japanese press correspondents in addition to what was suggested by me that the Embassy was carefully watching the situation.

894.001H61/89

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

No. 1429 TOKYO, August 10, 1935.
[Received August 24.]

SIR: I have the honor to inform the Department that on August 3, 1935, the Japanese Government released a statement regarding the position of the Emperor in the Japanese political system. This action was a consequence of the opposition to the views of various constitutional commentators, Dr. Minobe chiefly, which subject has previously been reported by the Embassy in its despatches No. 1208 of March 22, 1935, No. 1233 of April 5, 1935, and No. 1301 of May 14, 1935.[63]

It will be recalled that in February 1935 a retired army officer interpellated the government in the House of Peers as to its intentions for protecting public opinion against subversive political ideas contained in writings by Dr. Minobe. The matter was taken up by various political and patriotic groups and quickly became an issue of great public interest. The government showed itself on the defensive in the matter, not much concerned but closely watching the situation with a readiness to make what concessions might be unavoidable. Press and "patriots" did not permit the question to lapse, and the result has been the government's pronouncement of August 3. In tone and content it is a victory for Japanese imperial fundamentalists. The statement, although unsigned, is reported to have received the approval of the entire cabinet. The Embassy's translation is as follows:

Reflecting with reverence:

The form of our state was made manifest through the Divine Command vouchsafed upon the occasion of the descent of the Grandson of the Sun Goddess. One everlasting line of Emperors rules

[63] None printed.

the land. The prosperity of the Imperial regime is as limitless as heaven and earth.

In the Imperial Edict promulgating the constitution is the pronouncement, "The supreme authority We have received from Our Ancestors, and We shall hand it down to Our descendants." In Article I of the constitution it is stated, "The Empire of Japan shall be ruled by one everlasting line of Emperors." It is evident that the supreme authority to rule the Japanese Empire rests firmly in the Emperor.

Any such assertion as that the Emperor is the organ for the exercise of the supreme power which itself does not rest in the Emperor would contradict the fundamental principle of our unparalleled state structure. It is highly regrettable to witness of late, in connection with constitutional theory, a variety of opinions relating to the fundamental state principle; and the Government, redoubling its efforts to make clear the nature of the state, is determined to bring into operation its essential nature. In consequence this statement is made and the widespread cooperation of all quarters is hoped for.

The August 3 statement looks like another step towards what has been called the colossal effort of Japan, commenced in the Meiji period, to create a new national religion. To be sure, the document is not an Imperial utterance, and therefore lacks the prestige possessed by the series of rescripts which together constitute the sacred literature of post-Restoration Japan; but as the culmination of a noteworthy movement in Japanese politics it marks a phase which is historically important. The new needs of Japan which flooded in upon its being opened to occidental contact called for some principle to unify the efforts of the nation, and the country's leaders deliberately chose for this purpose a religion to be built around the Emperor. It was called Shinto; Basil Hall Chamberlain aptly called it Japan-worship. It took over and exploited for its own uses the most obvious and notorious tricks known to the art of pooling national self-esteem. Crude as the formulas were, it must be admitted that the Meiji leaders accurately knew their compatriots. The war against China and the war against Russia were successful tests. Then began a period during which scholars occasionally appeared to be venturing into freer ground and occasionally some isolated circumstance suggested that in the course of time the exaggerated formulas of the new religion, having served their purpose, would take their deserved rest among forms recognized as outworn. From 1931 the Manchuria adventure seems to have strengthened retrogressive forces in the nation which were already checking this same tendency. How great that check has been is tragically revealed by the wording of the statement of August 3, 1935, issued by the Okada cabinet because it was forced to do so.

What action will be taken specifically against Dr. Minobe has not even now been revealed. The government perhaps hopes that its broad concessions in principle will appease the fundamentalists and remove the necessity of personal action. As regards Baron Ikki, the

president of the privy council who has also been under political attack for his supposed institutional ideas of the position of the Emperor, Premier Okada has gone out of his way to state that he considers the Baron entirely qualified to continue in his duties.

Respectfully yours, EDWIN L. NEVILLE

894.001H61/79 : Telegram

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

TOKYO, August 13, 1935—6 p. m.
[Received August 13—5 : 52 a. m.]

167. The recent alleged disrespect of the Japanese Emperor at Seattle was featured in the Japanese newspapers of August 10 and 12 but has not been mentioned since the publication of a statement to the effect that Hornbeck expressed to the Japanese Counselor a desire for local settlement.

NEVILLE

894.001H61/87

Memorandum by the Under Secretary of State (Phillips)

[WASHINGTON,] August 14, 1935.

The Japanese Ambassador called under instructions with regard to the recent Seattle incident. He said that after the incident had been reported to his Government he received instructions from the Foreign Office to make representations at the Department, to which he had replied that in his opinion it would be wiser for him not to take this action. He had pointed out that the Mayor of Seattle had already made an apology and that it would be better to allow the matter to remain a purely local one; however, the Ambassador said that he had received new instructions to call at the Department inasmuch as there was a good deal of feeling among the Japanese people about the affair. I replied that in my opinion the Ambassador's advice to his Government had been wise and that it would have been better to have left the matter with the Mayor's apology; that unless there was some reason for keeping the incident alive in the minds of the public it could well have been laid to rest; I added, however, that I had noticed with satisfaction that the Ambassador had not used the word "protest" in his remarks.

Mr. Saito replied that he had carefully refrained from the use of this word and that he had merely brought to my attention the feelings of the Japanese people with respect to their country; that he had referred to the Seattle incident in particular and had expressed the

hope that there would be no other incidents of a similar character in the future. I informed the Ambassador that I had no comment to make other than that which the Secretary of State had recently made in public on the occasion of the *Vanity Fair* publication; that I could merely refer him to the Secretary of State's words which seemed to me to cover adequately both of his representations. The Ambassador said that he was quite satisfied.

W[ILLIAM] P[HILLIPS]

894.001H61/98

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

No. 1518 TOKYO, October 19, 1935.
[Received November 2.]

SIR: I have the honor to inform the Department of the release by the Japanese Government on October 15, 1935, of a second statement in regard to the position of the Emperor in the Japanese political system. This statement was issued after protracted negotiations between the War and Navy Ministers and the Prime Minister and is intended to clarify further the attitude of the Government originally expressed in its release of August 3, 1935, and reported by the Embassy in its despatch No. 1429 of August 10, 1935. Developments in the controversy centering around the constitutional views of Dr. Minobe, which occasioned the release of these statements, were also reported by the Embassy in its despatches No. 1208 of March 22, 1935, No. 1233 of April 5, 1935, No. 1301 of May 14, 1935, and No. 1501 of October 3, 1935.[64]

The military professedly under pressure of the demands of the Ex-Service Men's Association and apparently intent upon securing the adoption of concrete measures to re-enforce its victory in the statement of the Government of August 3, 1935, flatly rejecting Dr. Minobe's theory,* continued to importune Premier Okada to enunciate officially a more drastic policy. Press reports stated that the Army and Navy were determined to eliminate from public office all proponents of the theory, specifically, Baron Kotokuro Ikki, President of the Privy Council and Mr. Tokujiro Kanamori, chief of the Bureau of Legislation of the Cabinet.

A meeting between the War and Navy Ministers with the Premier on October 8 was generally interpreted to intimate the possibility of the matter being re-opened. It was reported in the press that in the course of the interview an allusion by the War Minister to the matter of the resignations of Baron Ikki and Mr. Kanamori was met by

---

[64] None printed.

*Embassy's despatch No. 1429 of August 10, 1935. [Footnote in the original.]

Premier Okada's firm refusal to petition the Emperor for the shift of Baron Ikki or the dismissal of Mr. Kanamori. Thereafter the newspapers carried daily reports of negotiations over the draft of a new statement which was drawn up by the War and Navy Ministries. Negotiations were carried on by the Chief Secretary of the Cabinet, director of the Cabinet Inquiry Bureau and director of the Cabinet's Legislative Bureau with the War and Navy vice-ministers and resulted in their reaching a compromise which on October 15 received the sanction of the War and Navy Ministers, Premier Okada, and finally the remaining Cabinet members and was issued the same day.

The following is the Embassy's translation of the text of the declaration as it appeared in the Tokyo press:

On a previous occasion the Government expressed its convictions in regard to the fundamental character of the nature of the State, in order to enlighten public opinion and exalt the national glory. That the subject of sovereign rights in our country is the Emperor is the fundamental principle of our national polity and the unwavering conviction of the subjects of the Empire. It is perceived that this spirit is embodied in the Imperial Edict on the Japanese Constitution and its provisions. The so-called Emperor organ theory, which, invoking examples and views current abroad, enunciates the theory that the subject of sovereign rights is not the Emperor but the State, thus making the Emperor a mere organ of the State, runs counter to the principles of our sacred national structure, violates its fundamental character, and must be sternly suppressed. It is essential, in order to exalt their true essence, that the fundamental principles of our national polity, unparalleled throughout the world, should constitute the basis of education, administration and all other national affairs. Firmly adhering to this conviction, the Government on this occasion further elucidates its attitude in order to clarify still better the conception of national polity and it will make every effort to secure the actual results implied in this conception.

While in general a mere reaffirmation of the original declaration of August 3, 1935,† the statement proposes definitely to "suppress" the objectionable theory. Whether the steps involved in accomplishing that end necessarily include personnel changes remains unsettled. It is reported that there have been but slight revisions in the phraseology of the draft of the military so it is probable that the War and Navy Ministers interpret it as a victory.

The *Japan Advertiser* of October 17 reports that Rengo quoted War Minister Kawashima to the effect that it was the responsibility of the Government to put the declaration into execution and "to effect personnel changes among adherents of the organ theory." There is no evidence at present, however, that Premier Okada will feel compelled to adopt such a course since direct mandate to do so is not written into the statement.

---

†Embassy's despatch No. 1429 of August 10, 1935. [Footnote in the original.]

It appears to be the consensus of press opinion that the new statement has at least temporarily settled the controversy since it received the unanimous sanction of all parties. It is improbable that the War and Navy Ministers will clamor for immediate action on the personnel question, being content for the present to simply point to the statement as a decisive victory. If this knotty issue is again brought forward, it is thought probable that it will be held over and espoused as an accompaniment to military demands in the approaching budget discussions.

Respectfully yours, EDWIN L. NEVILLE

894.00/557

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

No. 1612 TOKYO, December 24, 1935.
[Received January 13, 1936.]

SIR: I have the honor to refer to the Embassy's despatch No. 1079 of December 11, 1934,[65] which dealt with the pronounced nationalistic urge in Japan, the efforts being made to free Japan as much as possible from foreign influence, from which nothing more is to be gained in the opinion of the exponents of nationalism, and the steps being taken to attain economic self-sufficiency.

During the year that has elapsed since the writing of that despatch, the tendencies analysed therein have increased in force and concrete evidences of the national conceit have multiplied. First of all, Japan officially gave notice of abrogation of the Washington Naval Treaty of 1922 on December 29, 1934, and since then has firmly clung to its demand for the establishment of a common upper limit among the naval Powers, even at the risk of causing unrestricted building competition in the not distant future. Japan's withdrawal from the League of Nations took effect on March 27, 1935,* and no ill results have followed this separation. In fact, Japan's position on the Asiatic mainland seems to have been strengthened partly as a consequence of the disentanglement from the European scheme of things. The "Amau statement" of policy, first enunciated on April 17, 1934,[66] has been put into practice with apparent success from the Japanese point of view. In any case, in the past year there has been an obvious decline in European and American influence in China with a concomitant increase in Japanese influence there. The so-called autonomy movement in North China, fostered by the Japanese military,

---

[65] *Foreign Relations*, 1934, vol. III, p. 684.

*Embassy's despatch No. 1244 of April 19, 1935. [Footnote in the original; for despatch under reference, see p. 113.]

[66] See *Foreign Relations*, 1934, vol. III, pp. 112 ff.

whose connection therewith has not been officially disavowed by the Japanese Government, may be taken as an instance of Japanese active penetration in China and the enhancement of Japanese influence there. In the economic field, the vernacular newspapers and prominent business leaders point with pride to the continued expansion of Japanese foreign trade and the healthy condition of the internal economic structure.

Aside from the broad considerations set forth above, there have been a number of less important though no less illustrative evidences of the intensification of the urge toward nationalism and toward substantial independence from foreign influence in Japan. The "fundamentalist" theory of the Japanese Emperor as the supreme and semidivine head of his people gained a complete victory in the Minobe controversy, the upshot of which was the suppression of objectionably liberal ideas of foreign origin. In this connection and in connection with the growing belief that Western civilization has nothing further to offer Japan, it is interesting to note the views of the Government regarding the aims of the newly established Education and Study Council for the clarification of the form of the Japanese State.† Among these aims, as set forth by the Cabinet on November 24, are the eradication of the defects of Occidental culture and the inculcation among the people of the true spirit of Japan. Another pertinent development is the recent organization of the Domei Tsushinsha (United News Agency), around Rengo as a nucleus, the object of which is the setting up of strict Government control over the news published in Japan so that only the approved nationalistic point of view shall be presented.‡ Still another evidence of this nationalistic tendency is the decision reached by the Government on August 9 to enact legislation for the control of the automobile manufacturing industry in Japan.§ The main purpose of the proposed law is to prevent the foreign automobile companies from expanding further in this country and to secure the natural increase in the demand for automobiles for the Japanese manufacturers. Self-sufficiency in the supply of automobiles in time of war is the ultimate goal of the desired legislation, which is sponsored by the War Office, whose obstructionist policies have frequently hampered the foreign automobile companies in their operations in this country.

In the realm of religion in its relation to education, the nationalistic urge has manifested itself through the movement now on foot for the

---

†Monthly report for November, 1935. [Footnote in the original; report not printed.]

‡Embassy's despatch No. 1603 of December 26 [27], 1935. [Footnote in the original; despatch not printed.]

§Embassy's despatches No. 1431 of August 10, 1935, and No. 1490 [of October 1, 1935]. [Footnote in the original; despatches not printed.]

recognition of Shintoism as a religion and the compulsory teaching of Shinto doctrines in all schools. Heretofore the Home Ministry has maintained that Shintoism is not a religion in the strict sense, but only a form of ancestor reverence. It is reported that the Education Ministry has drafted for presentation in the Diet a bill providing that Shintoism shall be recognized as one of the religions in Japan, along with Buddhism and Christianity. In addition, according to the *Japan Times* of December 20, the Education Ministry advocates the teaching of Shinto doctrines and the establishment of Shinto shrines in all the schools of Japan. The placing of Shintoism on a definite religious basis would be significant because it has for many years been the cult of supreme patriotism in Japan. It is difficult to reconcile this proposed action with the position that the Japanese Government supports no religion and permits no religious teaching in public schools. A further illustration of the trend of affairs in this country is the intransigent attitude recently assumed by the Government with regard to the foreign oil companies' desire that the storage requirements of the Petroleum Industry Control Law be shortened. And, in general, the Japanese Government has become more reticent, more independent, and rather intractable in its dealings with foreign Powers.

Rather than hold up this despatch for interpretive comment I shall have occasion to refer to it later as background for a further discussion of the nationalistic and expansionist urge in present-day Japan.

Respectfully yours, JOSEPH C. GREW

894.00/555 : Telegram

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

TOKYO, December 28, 1935—1 p. m.
[Received December 28—2:20 a. m.]

254. Count Makino, Lord Keeper of the Privy Seal, has resigned and was replaced by Viscount Saito on the afternoon of December 26. The reason given for the change was Makino's ill health. From all that the Embassy has been able to learn, the reason given is the true one. Count Makino has been in poor health for some months.

The appointment of Viscount Saito, formerly Prime Minister, indicates that there are likely to be no new influences affecting the throne in the near future.

GREW

REPRESENTATIONS ON ESTABLISHMENT OF OIL MONOPOLIES IN JAPAN AND MANCHURIA[67]

894.6363/163 : Telegram

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

TOKYO, January 4, 1935—5 p. m.
[Received January 4—6 : 04 a. m.]

1. Embassy's 286, December 29, noon.[68]

1. Walden,[69] Parker [70] and Goold [71] of Standard-Vacuum Company arrived today from Shanghai and conferred with me this afternoon. They are prepared for conference with Japanese authorities as soon as it can be arranged, probably early next week.

2. Parker asked my advice as to whether the Standard and Shell representatives should enter the conference together. He favors this procedure fearing that otherwise the Japanese, following their usual methods of negotiating, will try to drive a wedge between the American and British interests.

3. In this emergency the American and British Embassies are cooperating but not acting jointly. As to the procedure of the companies, I said that I was not able to give advice on this point, at least without further thought.

4. A united front and solidarity between the companies would be manifested by their seeking simultaneous and joint conference with the Japanese authorities. I see no objection from this angle.

5. Does the Department care to express an opinion on this point and/or instruct me, (*a*) to advise affirmatively or, (*b*) to advise negatively or, (*c*) to withhold advice?

GREW

894.6363/163 : Telegram

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

WASHINGTON, January 4, 1935—6 p. m.

2. Your 1, January 4, 5 p. m. Department is inclined to the opinion that British and American oil interests should use every opportunity to impress upon the Japanese Government the fact that they are in complete accord and that they are in this case acting unitedly. Department therefore believes that the special representatives of the American and British oil interests should endeavor to arrange for joint conferences with the Japanese authorities.

---

[67] Continued from *Foreign Relations*, 1934, vol. III, pp. 699–799.
[68] *Ibid*, p. 798.
[69] G. S. Walden, chairman of the board of directors, Standard-Vacuum Oil Co.
[70] P. W. Parker, president of the Standard-Vacuum Oil Co.
[71] J. C. Goold, general manager for Japan of the Standard-Vacuum Oil Co.

If you concur, you may inform the American oil interests in the sense of the foregoing, emphasizing, however, that decision in regard to this matter rests with the oil interests and not with the American Government.

HULL

894.6363/169 : Telegram

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

TOKYO, January 10, 1935—11 a. m.
[Received January 10—12:11 a. m.]

5. Embassy's 1, January 4, 5 p. m., American oil interests in Japan.

1. The conversations between the special representatives of the American and British oil interests and the Japanese officials commenced yesterday at the Tokyo Club in order to avoid premature publicity in a pleasant and conciliatory atmosphere. The first day was devoted principally to generalities, the Japanese doing most of the talking. Conversations will be resumed this afternoon.

2. No Embassy officials are attending meetings but the oil interests will keep the Embassies fully informed. Important developments will be conveyed to the Department by telegraph and memoranda of the conversations by mail.

GREW

894.6363/174 : Telegram

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

TOKYO, January 31, 1935—7 p. m.
[Received January 31—6:54 a. m.]

21. Department's 10, January 30, 6 p. m.[72] Conversations progressing steadily but no concrete results yet obtained. Japanese officials promise definite written reply next week to memorandum recently submitted by foreign oil companies containing their desiderata and it is hoped then to be able to report specific results.

GREW

693.113 (Manchuria) Petroleum/85

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

No. 3320 PEIPING, January 31, 1935.
[Received February 25.]

SIR: I have the honor to refer to the Mukden Consul General's despatch to the Legation, No. 45, January 24, 1935,[72] in regard to the

[72] Not printed.

revised procedure for testing the quality of oils imported into Manchuria, copies of which were supplied directly to the Department, and to enclose a copy of the Legation's instruction in reply of January 29, 1935.[73]

The Consul General reported having received a letter from Mr. Kato, the Director of the Bureau of Commercial Affairs of the Foreign Office, announcing a revised procedure for testing the quality of oils imported into Manchuria, and requested the Legation's instructions as to the desirability of making a simple and informal reply thereto.

As the Consul General stated that the revised procedure was not one calculated to remove the discriminative features previously existing, the Legation expressed the belief that he might appropriately reply to Mr. Kato's letter in a personal letter omitting all titles wherein he might express his appreciation of Mr. Kato's efforts in behalf of the foreign oil companies, and at the same time his regret that it had not been possible to revise the procedure in a manner which would actually remove the disadvantages under which those companies continue to operate. It was also suggested that Mr. Ballantine express to Mr. Kato his hope that something further may be done toward ameliorating this situation, pointing out to him that, as evidenced by the continued excessive importations of "light oil" under the lower classifications of the tariff, the new procedure plainly affords no relief to the foreign oil companies.

A copy of the Legation's instruction referred to has been supplied to the Embassy at Tokyo for its information.

Respectfully yours, C. E. GAUSS

893.6363 Manchuria/136 : Telegram

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

TOKYO, February 8, 1935—5 p. m.
[Received February 8—9 : 45 a. m.]

27. 1. On February 6, Kurusu[74] stated to Sansom of the British Embassy that the foreign oil companies were still objecting to the monopoly as such and were not attempting to make business arrangements within the monopoly. He believed this to be arguing in circles as the monopoly plan would doubtless be carried out. He advised the foreign oil companies to discuss the matter purely on a commercial basis leaving legal aspects to be discussed by the Government.

---

[73] Not printed.

[74] Saburo Kurusu, director of the Commercial Affairs Bureau, Japanese Foreign Office.

2. Sansom replied that, although he did not know if the foreign oil companies had reached a final decision, he had gathered from their representatives when he last saw them that if the Manchurian authorities carried out the monopoly scheme the foreign oil companies could see no alternative as a purely commercial proposition except to dispose of their investments in Manchuria.

3. The above reply of Sansom was prepared beforehand at a meeting of the special representatives of the foreign oil interests.

Repeated to Peiping.

GREW

894.6363/175 : Telegram

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

TOKYO, February 8, 1935—6 p. m.
[Received February 8—9 : 55 a. m.]

28. My 21, January 31, 7 p. m.

1. A draft of the reply referred to has been received by the foreign oil companies. While showing some advance toward an agreement, the reply is disappointing and insufficient to allay the anxieties of the oil interests. With the oral assurances already received, however, it may afford an adequate basis for further discussion. The conversations were resumed yesterday with a more conciliatory attitude on the part of the Japanese, which may be due to the strong position taken by the foreign oil companies in regard to the Manchurian Oil Monopoly (see my 27, February 8, 5 p. m.). The Japanese officials now seem to recognize the necessity for some alteration of the oil regulations but state they cannot take action until after the Diet session ends because of the danger of internal political repercussions.

2. It was therefore intimated informally to the special representatives of the oil interests from Japanese sources that the conversations be suspended for several weeks and resumed after the close of the Diet. This suggestion is now under consideration.

GREW

693.113 (Manchuria) Petroleum/78 : Telegram

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

TOKYO, February 9, 1935—11 a. m.
[Received February 9—1 : 58 a. m.]

29. Department's 376, December 6, 2 p. m., to Peiping,[75] discrimination in regard to Manchurian import tariff on kerosene.

---

[75] *Foreign Relations*, 1934, vol. III, p. 776.

1. Because of unsatisfactory nature of the reply of the Manchurian authorities to the representations made on December 19 by the British Consul General at Mukden, the British Foreign Office has instructed the British Ambassador in Tokyo,[76] after consultation with me, to make representations to the Japanese authorities in an endeavor to enlist their assistance in remedying the situation.

2. The British Ambassador proposes to make representations somewhat along the following lines:

"Although the Manchurian authorities have promised an improvement in the situation the foreign oil companies are still anxious as to the future and therefore the British Government hope that the Japanese Government will see their way clear to impress upon the Manchurian authorities the necessity for more thoroughgoing measures."

3. The British Ambassador or Sansom will make these representations alone if necessary but prefer that we take similar and concurrent action. I approve the action indicated.

4. Please instruct.

Repeated to Peiping. GREW

693.113 (Manchuria) Petroleum/81 : Telegram

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

TOKYO, February 15, 1935—11 a.m.
[Received February 15—1:31 a. m.]

31. Department's 17, February 9, 3 p.m.,[77] Manchurian Kerosene Tariff. The British Ambassador has suggested to me that officers of our two Embassies make joint informal representations to the Foreign Office and leave a joint *aide-mémoire*. He is of the opinion that as the American and British oil companies are working together in regard to the Japanese and Manchurian oil situations, and as our representations hitherto have been so nearly identical, and as all these three subjects are closely interrelated, it would be well to make the representations jointly in this instance.

I can see no objection to joint informal representations. I am not so sure that a written *aide-mémoire* is desirable, as it would be possible to make oral representations that would meet the case, and a joint document might cause needless irritation. We might, however, leave a sheet of paper simply embodying the points brought out in our oral representations.

Please instruct. GREW

---

[76] Sir Robert H. Clive.

[77] Not printed; it authorized the action recommended in the telegram *supra* (693.113 (Manchuria) Petroleum/79).

693.113 (Manchuria) Petroleum/82 : Telegram

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

WASHINGTON, February 15, 1935—2 p. m.

20. Your 31, February 15, 11 a.m. The Department perceives no objection to joint informal oral representations and approves the suggestion contained in the penultimate sentence of your telegram.[78]

HULL

893.6363 Manchuria/139 : Telegram

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

TOKYO, February 21, 1935—7 p.m.
[Received February 21—12:10 p. m.]

36. The special representatives of the Standard-Vacuum Oil Company request that the following message (paraphrased by the Embassy) be transmitted to Dundas, Standard-Vacuum Oil Company, New York.

"At suggestion Japanese Foreign Office we and friends yesterday discussed Manchuria monopoly with Japanese adviser of monopoly and Manchuria Vice Minister of Finance who is also a Japanese together with a representative of the Japanese Foreign Office who acted as interpreter. We and friends could not accept any proposition presented and therefore conversations will probably continue. It was proposed by the Manchurian officials that the three foreign companies supply a limited quantity of gasoline and kerosene to the monopoly, our companies to be accorded preferential rights to this business at competitive prices. We do not consider this any compromise. Both friends and we are opposed to supplying monopoly with products which they will market and distribute because of the effect in other countries. Confirm if principals support this point of view and also ascertain if Texas likewise agrees. Wilkinson will transmit to you a telegram from friends sent through British Embassy on the same subject. Walden, Parker."

GREW

893.6363 Manchuria/139 : Telegram

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

WASHINGTON, February 23, 1935—1 p.m.

23. Your 36, February 21, 7 p.m. Following message (paraphrased by the Department) for special representative of American oil company.

"Your views have the support of all parties concerned. Dundas."

PHILLIPS

---

[78] The Ambassador in Japan reported in telegram No. 34, February 19, 6 p.m., that joint oral representations were made that day and were received favorably (693.113 (Manchuria) Petroleum/83).

894.6363/180 : Telegram

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

TOKYO, March 2, 1935—noon.
[Received March 2—10 : 36 a. m.]

44. Embassy's 28, February 8, 6 p. m.

1. The special representatives of the British and American oil interests are sailing today for Manila and are planning to return to Japan about April 1.

2. The special representatives feel that the present status of the conversations is discouraging but not yet hopeless. The Japanese officials engaged in the conversations had agreed orally to various desiderata of the foreign oil interests but when the agreed points were embodied by the foreign oil interests in a memorandum the officials retreated from their position, suggested various emasculating alterations in the memorandum and stated that they had no authority to bind the Government and would need time to ascertain the views of other departments concerned. They therefore suggested that the conversations be suspended until after the Diet session, due to close March 22. The special representatives agreed to this procedure, believing also that the officials would thereby have an opportunity to endeavor to modify the stockkeeping provisions of the law without appearing to be acting under foreign pressure.

3. The foreign oil interests have consistently taken a strong stand and have refused to modify their views in any essential particular but they feel that they will not succeed in forcing any alterations in the law unless they give the Japanese Government definitely to understand that the foreign oil companies will have to withdraw from Japan should no modifications be made. The special representatives have not yet decided to make this announcement and cannot reach a decision until they have ascertained upon their return to Japan to what extent the Japanese views can be reconciled with theirs.

4. In the course of a conversation with the Minister for Foreign Affairs this morning I said to him informally that the special representatives of the foreign oil interests hoped that during their absence some concrete solution of their difficulties might be found so that they could visualize their future business in Japan with confidence and I expressed the hope that the Minister would use his good offices with his colleagues in the Cabinet to that end. Hirota replied that the subject of oil is an acute question in the Diet and he therefore felt that the matter should be left in abeyance until after adjournment when he believed that some satisfactory agreement could be reached. He added significantly: "You know we are absolutely dependent on American oil."

5. My British colleague proposes to mention the subject similarly to the Foreign Office next week.

GREW

893.6363 Manchuria/143 : Telegram

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

TOKYO, March 2, 1935—3 p. m.
[Received March 2—12 : 17 p. m.]

44. Embassy's 36, February 21, 7 p. m. transmitting a message on the Manchuria oil monopoly for the Standard-Vacuum Oil Company.

1. On February 28 Kurusu conveyed to the special representatives of the foreign oil interests through Sansom a further proposition offering to increase the monopoly's immediate purchases of refined oil from the foreign oil companies promising a fixed percentage of the monopoly's purchases of refined oil after the monopoly has been in operation for a time and the amount of competition ascertained and promising preference in the purchases of crude oil for the Manchuria Oil Company. He stated, however, that there was no prospect of allowing the companies to retain their selling organizations in Manchuria.

2. After discussion with ourselves and the British Embassies the special representatives conveyed the following message to Kurusu through Sansom on March 1:

"The companies hesitate to decline definitely to enter into obligations to the monopoly but they see little prospect of being able to depart from their principle of not supplying monopolies. Moreover, they feel that the Manchurian oil question being from their point of view part of the whole question of oil supplies they would prefer to postpone any further discussion until their return if it were then thought by the authorities that further discussions were desirable."

3. Kurusu said that he gathered from this reply that the monopoly could not rely upon the established foreign oil companies for its supplies and that it would have to look elsewhere. Sansom denied any knowledge of what the foreign oil companies would do in the future.

Repeated to Peiping.

GREW

893.6363 Manchuria/151 : Telegram

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

TOKYO, March 21, 1935—1 p. m.
[Received March 21—2 : 11 a. m.]

59. 1. Consulate General at Mukden reports as follows:

"March 20, 1 p. m. Yesterday's *Kokutsu* quotes text of enactments issued at Hsinking yesterday providing (1) for the enforcement of the petroleum monopoly law on April 10th and (2) that present dealers may, by applying to monopoly authorities before April 15, obtain permits to sell stocks held on April 10. The Government however reserves the right to refuse such permits and to purchase stocks at market price.

Local army spokesman cannot confirm details but believes announcement to be authentic in substance."

2. Manchukuo government's reservation of right to purchase present stocks of oil of foreign companies indicates intention to take over such stocks in order to obtain temporary working supplies.

3. It is probable that the American oil interests will request an expression of opinion from the Embassy as to the advisability of applying for permission to sell their present stocks of oil under the second provision of the telegram quoted above. The Department's opinion as to the attitude to be taken by the Embassy in such contingency, or in the event that the supplies of the American oil interests are forcibly taken over by the monopoly, would be helpful.

Repeated to Peiping.

GREW

893.6363 Manchuria/151 : Telegram

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

WASHINGTON, March 22, 1935—6 p. m.

44. Your 59, March 21, 1 p. m.

1. Department is of the opinion that the question of retention or of sale to the Monopoly of stocks now held by American oil interests is one for decision by the companies concerned.

2. Based upon such information as is now available, Department doubts likelihood of a forcible seizure by the Monopoly of foreign-owned stocks. If, however, either the Embassy or the Legation at Peiping should receive evidence that such a step is seriously in contemplation by the authorities in Manchuria or in Japan, detailed reports, including recommendations, should be submitted promptly to the Department by telegram.

3. In view of the report that the Petroleum Monopoly Law will be enforced April 10, do you or your British and Netherlands colleagues consider advisable any further approach to the Japanese Government at this time?

4. Department is transmitting to Peiping text of paragraphs 1 and 2 above.

HULL

792998—53——63

893.6363 Manchuria/153 : Telegram

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

TOKYO, March 25, 1935—5 p. m.
[Received March 25—9 : 54 a. m.]

63. Department's 44, March 22, 6 p. m.

1. The British Embassy today received a reply from the Foreign Office to its formal representations of November 24 on the subject of the oil monopoly in Manchuria. The reply restates the Japanese stand as communicated previously to the American and British Embassies and further deals with Manchukuo's alleged non-responsibilities under the treaties between China and other countries. While the reply has not yet been translated it seems to be unconciliatory in tone.

2. This Embassy has not yet received its reply although it is momentarily expected. When received and translated we shall telegraph the text or a digest thereof with our suggestions as to further steps.

Repeated to Peiping.

GREW

893.6363 Manchuria/161 : Telegram

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

TOKYO, March 28, 1935—10 a. m.
[Received April 3—11 : 35 p. m.]

66. Embassy's 63, March 25, 5 p. m. Following is a digest of the Japanese *aide-mémoire* of March 25 delivered in reply to the British representations of November 24, as translated by the British Embassy.

1. The *aide-mémoire*, after recapitulating the British contentions, states that those contentions are primarily upon a complete disregard of the independence of Manchukuo, which independence is recognized by the Japanese Government; states that it is contradictory, while denying the existence of Manchukuo, to cite only that part of Manchukuo's unilateral declarations which are favorable to British interests; states that while Japan is willing to mediate it cannot intervene in a domestic question of Manchukuo; and states that "the Japanese Government regret that the British Government should on this occasion again wish to invite argument upon fundamental questions relating to the Japanese recognition of Manchukuo, which is their unchangeable national policy."

2. The *aide-mémoire* then proceeds to outline the following points:

(*a*) Manchukuo's control of the petroleum industry is a scheme of the Manchukuo government and the Japanese Government is not concerned in it; the Manchuria Oil Company possesses no exclusive monopolistic rights; there are no provisions discriminating on account of nationality in regard to the holding of shares of the Manchuria

Oil Company; the Japanese Government therefore denies any infringement of treaties or declarations in connection with the establishment of the monopoly or with Japanese investments in the Manchuria Oil Company.

(*b*) "It is evident, according to international law, that the provisions of the treaties between China and other countries cannot be understood as being taken over uniformly and unconditionally without any sort of new arrangement for the consequences upon the independence from China of Manchukuo. It is believed, accordingly, that it was proper that Manchukuo, when first established as a nation, should have declared that in the treaties hitherto in force between China and other countries only such things as ought, in the light of international law and international usage, to be taken over, should be taken over and respected. Futhermore, although it is a fact that in the communication in which Manchukuo proposed the inauguration of her diplomatic relations with foreign countries the open door policy was not proclaimed yet it is evident that these foreign countries who completely disregarded her proposal have not the right to accept unilaterally those parts alone of her communication which happen to suit their own convenience. Moreover, even leaving out of consideration the present state of affairs in Europe and America, where the most extreme policy is being put into practice in the control of commerce and trade, the application of the necessary control by an independent nation to industries such as the petroleum industry, which have an important relation to her existence as a state, is the proper right of a nation, and it is inconceivable that when, in announcing her independence, Manchukuo made the above mentioned comprehensive declaration she was abandoning her proper national rights and duties. Thus it cannot be allowed that there is in fact involved in her present scheme for the control of the petroleum industry any contravention by Manchukuo of treaties or declarations."

(*c*) The Japanese Government therefore cannot agree to bear responsibility for the actions of Manuchukuo and cannot allow any contention based on a denial of the independence of Manchukuo.

Repeated to Peiping by mail.

GREW

893.6363 Manchuria/156 : Telegram

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

TOKYO, March 29, 1935—11 a.m.
[Received March 29—7 a.m.]

69. Department's 44, March 22, 6 p. m., paragraph 3.

1. I do not believe that further, last-minute appeals to the Japanese Government in the hope of preventing or postponing the oil monopoly in Manchuria would be effective in any respect.

2. I have discussed the advisability and character of future steps, taking the oil monopoly as a *fait accompli*, with my British colleague, who agrees with me that we cannot accept without further protest

the replies made by the Japanese Government to our representations. (This assumes that the reply to our representations will be substantially the same as that made to the British representations.) It appears to us both that our Governments might well put in a final word, to the general effect that the replies of the Japanese Government have in no way altered our views; however, that we still consider the establishment of the monopoly and the participation by Japanese nationals in the privileged Manchuria Oil Company to be plain infringements of treaties and declarations; and that therefore we feel that the Japanese Government cannot escape a measure of responsibility for losses suffered by our nationals through the operation of the monopoly. We ourselves cannot of course take this action until after the receipt of the reply to our own representations. Clive is consulting his Government.

3. In addition to the above, the British Embassy is considering the advisability of suggesting to its Foreign Office that the entire correspondence between the British and Japanese Governments in regard to the oil monopoly in Manchuria be published, in view of the fact that the Japanese Foreign Office, without consulting the British Government, released for publication an English version of its reply (which was marked "confidential") to the British representations.

To Peiping by mail.

GREW

893.6363 Manchuria/185

The Consul General at Mukden (Ballantine) to the Minister in China (Johnson)[79]

No. 74 MUKDEN, March 29, 1935.

SIR: I have the honor to refer to my despatch No. 71 of March 22, 1935, in regard to the enforcement of the "Manchukuo" Petroleum Monopoly, and to enclose a report [80] made by the assistant manager of the Standard-Vacuum Oil Company to the Manager of a conversation with the Chinese agent of the Company at Kirin regarding a meeting of agents called by the Monopoly authorities to meet at Hsinking on March 25.

It is evident from the report that the tactics being followed by the Monopoly authorities are to isolate the foreign oil companies from their agents, the obvious purpose of which is to render the companies

[79] Copy transmitted to the Department by the Consul General in his unnumbered despatch of March 30; received April 29.

[80] Not printed.

so helpless that they would be amenable to disposing of their stocks to the Monopoly without haggling over the prices offered. The companies, however, have apparently not yet received instructions from their head offices on the policy to be followed by them in preparation for the institution of the Monopoly. Naturally, if their agents are interdicted from buying their stocks, there will be no other buyer other than the Monopoly, and it would therefore seem that sooner or later they must make up their mind whether they will sell to the Monopoly or not. If they do not sell, they face the possibility of having stocks left on their hands, since it is barely possible that the railway might refuse to transport them to a port for shipment out of the country.

Three of the major agents of the Standard-Vacuum Oil Company have already resigned. Although none of the agents of the Texas Company have yet taken this step, both companies are apprehensive that resignations will now begin coming in.

There is still some obscurity regarding the status of the Monopoly in the South Manchuria Railway Zone. The British Consul General was told by the Japanese Consul General that the monopoly would be operative in the zone. The former had also received a report from the Asiatic Petroleum Company of a meeting called at Hsinking by the Monopoly authorities at which the latter acquainted the agents with an alleged arrangement whereby only accredited monopoly dealers would be permitted by the Japanese authorities (the Kwantung Bureau) to make sales. The existence of an arrangement between the Railway Company and the "Manchukuo" Government regarding the operation of the monopoly in the zone was confirmed to me by the official army spokesman. I asked him whether this agreement had been implemented by any enactment by the competent agency of the Japanese Government as I did not see how without such enactment the Japanese police would be able to enforce the agreement. He replied that he did not know of any, but would look up the question for me.

I have been told by the representative of the Standard-Vacuum Oil Company that they propose writing their agents in the zone that so far as they are aware there is no legal authority for the enforcement of the Monopoly in the zone and requesting the agents to carry on with the agency so far as zone business is concerned. Such action was already taken yesterday by the Texas Company. If definite evidence is thereby developed that the Japanese authorities are a party to the monopoly it might be of value in connection with possible future representations to the Japanese Government.

In this connection, I refer to my statement in my previous despatch above cited that the Japanese police in the Ssupingkai zone settle-

ment took away the Company's storage permit on the plea of examining it and failed to return it. The company sent a representative to Ssupingkai and the police promised to return the permit by 1 p. m. of the 28th. This promise, however, was not kept, and a representative is again being sent by the company to Ssupingkai.

I shall not fail to inform the Legation promptly of any further developments in the situation.

Respectfully yours, JOSEPH W. BALLANTINE

893.6363 Manchuria/156 : Telegram

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

WASHINGTON, March 30, 1935—2 p. m.

53. Your 69, March 29, 11 a. m. Department is inclined in general to agree with the views and to approve suggestion for possible future action outlined in paragraphs 1 and 2 but will await further report from you before issuing instructions.

HULL

893.6363 Manchuria/162 : Telegram

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

TOKYO, April 7, 1935—noon.
[Received April 7—5 : 45 a. m.]

75. 1. The Consul General, Mukden, and the Consul at Dairen report the issuance on April 4 of regulations effective April 10 for the control of the petroleum trade in the Kwantung Leased Territory and the South Manchuria Railway zone. The regulations do not refer to the monopoly and do not appear to preclude the continuance in business of the foreign oil companies within the territory covered by the regulations. The regulations, however, impose a licensing system upon importers, exporters, wholesalers and retailers of petroleum products and require special permission to import oils into or export oils from the territory. Provision is also made for monthly reports of stocks and for police inspection.

2. Mukden reports that the oil companies believe that the regulations are not for the purpose of excluding the foreign oil companies from business but are intended to prevent shipments to Manchukuo in contravention of the monopoly law.

3. The Embassy is of the opinion that the regulations were issued in order to afford as much assistance as possible to the enforcement of the monopoly without actually permitting the monopoly to operate within territory directly controlled by the Japanese Government.

In this way the Japanese Government probably hopes to avoid charges of acquiescence in and of active assistance to the monopoly and to escape direct responsibility for losses incurred by the foreign oil companies because of the enforcement of the monopoly.

Repeated to Peiping by mail.

GREW

893.6363 Manchuria/164 : Telegram

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

TOKYO, April 10, 1935—7 p. m.
[Received April 10—1 : 28 p. m.]

77. 1. The British Ambassador has received instructions to deliver to the Minister for Foreign Affairs a strongly phrased reply to the Japanese *aide-mémoire* of March 25 to the effect that the Japanese communication is entirely unsatisfactory and that the British Government must hold the Japanese Government responsible for losses caused to British interests by the establishment of the monopoly.

2. Clive is furthermore directed to state orally that Sir John Simon [81] will probably be obliged to set forth the situation to the House of Commons which will have a deplorable effect on British public opinion, and that he will also probably be obliged to publish the last British *aide-mémoire* in view of the fact that the Japanese had published their own *aide-mémoire.*

3. Clive expects to carry out these instructions on April 12. He informs me that his Government, which now believes that the monopoly cannot be averted, is exceedingly angry and not only fears that the oil monopoly will lead to other monopolies in Manchuria but understands that the Japanese Government is urging Siam to declare a similar monopoly on oil.

4. Clive told me in strict confidence of the instructions cabled to Lindsay [82] from London on April 9 in which the latter is directed to mention to the Department the understanding of the Anglo-Dutch oil interests that the California oil companies would not be averse to cutting off their supply of crude oil to Japan.

5. The Foreign Office has just delivered the reply to our *aide-mémoire* of November 30 but it has not yet been translated. A summary will be telegraphed tomorrow.[83]

To Peiping by mail.

GREW

---

[81] British Secretary of State for Foreign Affairs.
[82] Sir Ronald Lindsay, British Ambassador at Washington.
[83] For text of Japanese reply dated April 10, see *Foreign Relations*, Japan 1931–1941, vol. I, p. 146; the American note is printed *ibid.*, p. 143.

893.6363 Manchuria/170

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

[WASHINGTON,] April 10, 1935.

The British Ambassador called and brought me two papers relating to the "Manchukuo" oil monopoly. These papers are here attached.[84]

I inquired of the Ambassador just what his Government contemplated in the statement that it would hold the Japanese Government responsible for losses which might accrue to British nationals from the unlawful action of the "Manchukuo" régime. The Ambassador said that he thought they meant that they would press the claims for such losses.

There followed some discussion of other points in the papers and I informed the Ambassador that we would give the contents of these papers immediate consideration and I would communicate with him at the earliest possible date.

S[TANLEY] K. H[ORNBECK]

893.6363 Manchuria/165 : Telegram

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

TOKYO, April 11, 1935—6 p.m.
[Received April 11—9:45 a.m.]

81. Embassy's 77, April 10, 7 p.m., paragraph 5.

1. Except for the differences in the summation of our arguments in the introductions of the *aide-mémoire* and the use of the words "American Government", instead of "British Government", the *aide-mémoire* received by this Embassy last night on the subject of the oil monopoly in Manchuria does not differ in any essential respect from that received by the British Embassy on March 25, the gist of which was transmitted to the Department via Shanghai in the Embassy's No. 66, March 28, 10 a.m. Exactly the same arguments are employed and even the wording appears to be the same.

2. Amau [85] stated today to the foreign press correspondents that the reply to the American representations would not be published in Japan.

3. The Netherlands Minister has not yet received the reply to his representations.

4. I see no reason to alter the suggestions contained in paragraph 2 of my 69, March 29, 11 a.m. and I believe that it would be advisable

---

[84] Neither printed.

[85] Eiji Amau, director of the Information and Intelligence Bureau, Japanese Foreign Office.

for the American Government to take action similar to that being taken by the British Government, as outlined in my 77, April 10, 7 p.m., at an early moment in order that the action of the two Governments may be as nearly concurrent as possible.

5. The Embassy is informed that the next move by the oil companies will be to claim damages for the invalidation of their investments and loss of their business in Manchuria and they hope that these claims can be presented to Japanese rather than to the Manchukuo Government. In our final representations, therefore, it would appear to be desirable to emphasize the responsibility of the Japanese Government in this connection.

To Peiping by mail.

GREW

893.6363 Manchuria/164 : Telegram

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

WASHINGTON, April 12, 1935—6 p.m.

61. Your 77, April 10, 7 p. m., paragraph 4. British Ambassador on April 10 left at Department a typed plain page [86] bearing no designation, date or signature, which reads in part to the effect that the Anglo-Dutch oil companies have suggested that the California companies, if given a hint by the American Government, would be prepared to unite with the British companies in refusing to provide crude oil supplies for the refinery of the Manchuria Oil Company.

Department notes apparent discrepancy between foregoing statement and report given in your 77, April 10, 7 p. m., paragraph 4, which refers to supplies of crude oil "to Japan."

British Embassy requests expression of Department's views on whole subject. Department is considering.

HULL

893.6363 Manchuria/165 : Telegram

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

WASHINGTON, April 12, 1935—8 p.m.

62. Your 81, April 11, 6 p. m. Department interprets the tactics of the Japanese Government in delaying delivery to you of a reply approximating textually the reply given by that Government 2 weeks earlier to the British Ambassador as an effort to separate us and the British as regards action in relation to the matter. We feel that we should constantly endeavor to maintain a common front, and to that

[86] Not printed.

end Department desires that you make reply, synchronizing your action with that of your British colleague and making your text approximately as strong as but not stronger than his reply.

The British Ambassador here called at the Department on April 10 and left a verbal memorandum [87] which states that they have instructed Clive to make a brief written reply to the effect that British Government is unable to accept the Japanese contentions as valid and regrets that the Japanese Government has attempted to justify action in which a clear breach of assurances and obligations is involved. The memorandum continues, but in a separate sentence, "His Majesty's Government cannot but hold those responsible for the Manchurian oil monopoly law responsible also for the losses which it will entail on British interests."

The memorandum states that Clive is to consult with his Netherland and American colleagues before acting, that, when presenting the note, he is to inform Hirota orally that Simon views Japan's action with profound regret; that public opinion in England will regard the case as a clear breach of solemn assurances on which reliance has been placed, etc. Department does not know exactly how much they intend that Clive shall include in his written statement or what words he shall employ.

You should ascertain as completely as possible what Clive will put in writing and what he will say orally. In the light thereof and of what appears above, formulate appropriate reply partly in writing and partly in oral statement. You may say, among other things, in either or in both contexts, that the American Government is constrained to express its considered view that ultimate responsibility for injury to American interests in consequence of the creation and operation of the oil monopoly in Manchuria must rest upon the Japanese Government.

HULL

893.6363 Manchuria/195

The Consul General at Mukden (Ballantine) to the Minister in China (Johnson) [88]

No. 79 MUKDEN, April 12, 1935.

SIR: I have the honor to refer to my despatch No. 77 of April 5, 1935 in regard to the institution of the "Manchukuo" Petroleum Monopoly, and to enclose a translation made in this office of Notification No. 42 of the Kwantung Bureau of April 10, 1935, in which publicity

---

[87] Not printed.

[88] Copy transmitted to the Department by the Consul General in his unnumbered despatch of April 12; received May 6.

is given to a notice received from the Dairen Customs regarding procedure to be followed for the import into or export from "Manchukuo" of petroleum products.

The notice of the Dairen Customs will by its terms not only prohibit foreign oil companies from importing fresh stocks into "Manchukuo" but also from exporting what they have on hand out of the country unless they obtain a permit from the Monopoly authorities. Since native dealers are prohibited from taking any further stocks from the foreign oil companies, it is apparent that the Monopoly authorities are in a very strong position in any negotiations that they may propose for buying the companies' stocks. In any case the companies would have been reluctant to export their stocks after having paid entry and inland freight charges.

Since the notice of the Dairen Customs is merely an administrative measure to give effect to policy already defined in the Petroleum Products Monopoly Law and regulations based upon it, the probability that the foreign oil companies would not be able to dispose locally except to the Monopoly of stocks on hand when the monopoly went into force was anticipated by the oil companies, as was the possibility of measures being taken to prevent exportation, and the representatives of the American companies here inform me that they had not failed to keep their head offices informed of the position. As I stated in the last paragraph of my despatch No. 77 of April 5, the general attitude of the companies was that they were averse to selling even indirectly to a monopoly. On the basis of this policy, I am now informed, definite instructions were sent by the Standard-Vacuum Oil Company to their agents not to declare to the monopoly stocks belonging to the company held on consignment. I understand from the British Consul General that the Asiatic Petroleum Co. did the same. Apparently the Texas Company did not take the same action; the Manager understands that its agents did declare their stocks. The Standard-Vacuum Oil Company have about 950,000 gallons of kerosene and gasolene on consignment to their agents and 550,000 gallons on storage in their several installations in "Manchukuo". The corresponding figures for the Texas Company are 360,000 gallons and 100,000 gallons.

The Standard-Vacuum Oil Company state that they are protected by a cash guarantee against any defalcations by their agents in connection with these stocks, but that this guarantee would not be applicable to stocks which their agents desire to turn in because of their inability to sell. The Texas Company state that they expect their agents will be able to sell all their consigned stocks.

The representatives of neither of the two American companies appear to be very much concerned over the question of the disposal of the stocks, the attitude of Standard-Vacuum Company being that,

as they have long ago advised their Shanghai office of the position, the latter may have some policy in mind of which they have no information.

There is another point in regard to the customs notification which also merits mention. The Texas Company state that they have been refused permission by the Dairen Customs to import a shipment of lubricating oil, although my interpretation of the text of the notice would exclude lubricating oil from its provisions. Moreover, lubricating oil is not specifically mentioned in the Monopoly law, and it has always been understood by the oil companies that it was not to be a subject of the monopoly. I therefore advised the Texas Company to make oral representations to the Customs in Dairen, since it was possible that their action was the result of a misunderstanding.

Respectfully yours, JOSEPH W. BALLANTINE

894.6363/193 : Telegram

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

TOKYO, April 13, 1935—6 p.m.
[Received April 13—9:07 a.m.]

82. Embassy's 76, April 8, 6 p. m.[89] transmitting a message for Standard-Vacuum.

1. The oil conversations ended today and the special representatives of the oil interests are leaving Japan in the near future to consult with their home offices.

2. Faced with the danger of a definite break with the large oil interests, the Japanese officials today gave the special representatives last minute promises of future fulfillment of practically all the desiderata of the foreign oil interests. This fact cannot however be published either in Japan or abroad for fear of ultra patriotic reaction which might defeat the plans of the authorities to ameliorate the requirements of the law. Details of the understanding[90] reached will be transmitted on the 15th to Standard-Vacuum New York through the Department.

GREW

894.6363/199

Memorandum by the Foreign Oil Interests in Japan[91]

The following is an outline of the understanding reached with the Shokosho officials in connection with the future business of the Stand-

[89] Not printed.
[90] For text, see *infra*.
[91] Copy transmitted to the Department by the Ambassador in Japan in his despatch No. 1253, April 19; received May 4.

ard-Vacuum Oil Company and the Rising Sun Petroleum Company at a meeting held on April 13, 1935:

The Companies' Understanding	*Answer of the Officials*
1. The Standard-Vacuum Oil Company and the Rising Sun Petroleum Company will be granted as a minimum their 1935 gallonage.	Yes.
2. The Government will make no commitment at this time to either Importers or Refiners for the allocation of the future natural increase but it will be divided fairly between Refiners and Importers. Quotas of gasoline to importers after 1935 will include a minimum of 33⅓ percent but probably more of the natural increase. Chosen possibly better. Kerosene, present position to be granted. Fuel oil to be discussed.	Yes.
3. Stock-keeping obligations will be three months, including working stocks. To be arranged as soon as possible but not later than October 1, 1935. No expenditure to be incurred for stock-keeping until change made and position legalized.	Yes.
4. Domestic prices to be based on costs and if present price is shown to be unremunerative the Shokosho will sanction an increase and will not oblige the Companies to sell at a loss.	Yes.
5. There will be no discrimination against these Companies.	Yes.

Cannot give guarantee of the above for a definite period, but any expenditure incurred will not be rendered unprofitable.

Those present at the meeting on April 13, 1935, were: Mr. Yoshino, Vice Minister for Commerce and Industry; Mr. Kurusu, Chief of the Bureau of Commercial Affairs, Foreign Office; Mr. Kojima and Mr. Sakai of the Department of Commerce and Industry; Mr. Hogetsu of the Foreign Office; Mr. Walden, Mr. Parker, Mr. Goold and Mr. Meyer of the Standard-Vacuum Oil Company; and Mr. Godber and Mr. Malcolm of the Rising Sun Petroleum Company.

893.6363 Manchuria/171

The Department of State to the British Embassy

With reference to the British Ambassador's verbal communication of April 10, 1935,[92] in regard to the oil situation in Manchuria, it is noted that the British Government has instructed its Ambassador at

[92] Not printed.

Tokyo to send to the Japanese Government a brief written communication to the effect that the British Government is unable to accept as valid the Japanese contentions in regard to the subject under discussion. It is also noted that the British Government cannot but hold those responsible for the Manchuria oil monopoly law responsible also for the losses which it will occasion British interests.

In view of the fact that in reply to the most recent representations of the American Government the Japanese Government, on April 10, delivered to the American Embassy at Tokyo a communication substantially similar to the communication which the Japanese Government on March 25 delivered to the British Embassy at Tokyo, the Department has instructed the American Ambassador at Tokyo to consult with his British colleague with a view to synchronizing and coordinating the presentation by the two Embassies to the Japanese Government of replies which will be similar to one another in tone and in substance.

WASHINGTON, April 15, 1935.

893.6363 Manchuria/166 : Telegram

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

TOKYO, April 16, 1935—7 p.m.
[Received April 16—3 : 20 p.m.[93]]

87. Department's 62, April 12, 8 p. m., Manchurian oil monopoly.

1. As foreseen in paragraph 3 of our 77, April 10, 7 p. m., the British Ambassador made his representations and left his note with the Minister for Foreign Affairs on April 12. The Department's 62, April 12, 8 p. m. was received and decoded evening April 13. At the first practicable opportunity thereafter I saw the Minister for Foreign Affairs this morning and read and handed to him the following note, dated April 15:

"I have the honor to acknowledge the receipt of *aide-mémoire* No. 29, dated April 10, 1935, in regard to the petroleum monopoly in Manchuria.

The contents of the *aide-mémoire* having been duly communicated to my Government, I have now been instructed by the Secretary of State of the United States to inform Your Excellency that the American Government is unable to accept as valid the contentions advanced in the *aide-mémoire* to which reference is made. The American Government greatly regrets that the Japanese Government has not seen its way clear to use the influence which it possesses through its close and peculiar relations with the present regime in Manchuria to uphold in practice the principle of the open door and the fulfillment of the

[93] Telegram in two sections.

treaty obligations which both the Japanese Government and the authorities in Manchuria have on numerous occasions declared that they would maintain.

I am also instructed to state that the American Government is constrained to express its considered view that upon the Japanese Government must rest the ultimate responsibility for injury to American interests resulting from the creation and operation of the petroleum monopoly in Manchuria."

2. I then made oral representations along the following lines.[94]

(*a*) The creation of the oil monopoly in Manchuria and the part played therein by Japanese nationals and interests will have a deplorable effect upon American public opinion.

(*b*) The American public will regard as a most inequitable proceeding the destruction through the operation of the monopoly of a publicly valid business patiently built up through hard work over many years by American interests and the throwing of this business in large part into the hands of Japanese through the invalidation of treaty commitments.

(*c*) Although the peculiar relations and undoubted influence of Japan with the Manchurian authorities have been fully demonstrated in other recent issues, the Japanese Government in this case disclaims responsibility. This inconsistency will adversely affect American opinion with regard to the good faith and sincerity of the Japanese contentions.

(*d*) If, as has been publicly stated, the principle of national defense is involved in the creation of the monopoly, Japan, which has assumed responsibility for the defense of Manchuria, cannot dissociate itself from the monopoly project. If the monopoly is purely a matter of economic policy, it should be considered obligatory for Japan to associate itself with other nations in the maintenance of equal commercial opportunity in Manchuria.

3. (*a*) The Minister for Foreign Affairs replied that the question should be approached in a practical rather than a theoretic or legalistic way and stated that the principal trouble was that the oil companies habitually referred every step to their home governments and that their home governments would not permit them to reach a practical solution with the Manchurian authorities. I promptly refuted this argument, stating that while the American Government naturally supports American interests, it does not dictate their policy and the companies are entirely free to act as they think best. While the oil companies have no doubt been obliged through circumstances to consider the legalistic aspects, nevertheless they have regarded the question primarily as a business proposition and they have already been in touch with the Manchurian authorities without favorable results. (Representatives of Standard-Vacuum and Rising Sun inform us that at no time have any of the representatives of the oil

[94] Cf. *Foreign Relations*, Japan, 1931–1941, vol. I, pp. 149–151.

interests stated to the Manchurian or Japanese authorities that it was necessary for them to refer any question to their home governments. They believe that this assumption on the part of the Japanese arose from the fact that the authorities are probably aware that every step is reported to the embassies).

(*b*) The Minister then reread our note and asked what I meant by the "declarations" mentioned at the end of paragraph 2. I immediately read to him several of the various assurances given by the Japanese Government concerning the maintenance of the open door in Manchuria, giving him specific references and dates.

(*c*) The Minister then said that the assurances regarding the open door had been given on the understanding that Manchukuo would be recognized by the other nations. He alluded to the fact that the United States had not even recognized the existence of Manchukuo and he observed that the Soviet Union had accorded *de facto* recognition by concluding a treaty with Manchukuo effecting the sale of the North Manchurian Railway. I asked if I was to understand from what he had said that treaty obligations and the principle of the open door in Manchuria are not to be held to apply to the United States. He replied that until the existence of Manchukuo is recognized "no dispute whatever can be entertained with regard to that country".

(*d*) In conclusion I observed that the American Government based its case on treaty commitments and past assurances and then took my leave. (End of résumé of conversation).

To Peiping by mail. GREW

893.6363 Manchuria/172

The Chief of the Division of Far Eastern Affairs (Hornbeck) to the British Ambassador (Lindsay)

WASHINGTON, April 16, 1935.

MY DEAR MR. AMBASSADOR: I send you herewith the memorandum of oral statement in record of what was said to you this morning.

The reference is, of course, to the second of the two memoranda which you handed to me on April 10.[95]

I am [etc.] STANLEY K. HORNBECK

[Enclosure]

Memorandum of Oral Statement

There is noted the statement that it has been suggested by the Shell and the Asiatic Petroleum Companies that the California companies,

[95] Neither printed.

if given a hint by the United States Government, would be ready to join the British companies in refusing to supply crude oil for the Manchurian Oil Company's refinery; that this would entail expense and difficulty for the latter and might have as a result a modification of Manchurian (oil) policy; that the British Government would consider such a course fully justified; and that it is felt that failure to show any firmness might have the effect of encouraging the spread of monopolies in Manchuria, China and even Siam which it is believed would be as distasteful to the United States Government as to the British Government.

There is noted the statement that the Department's views on the whole situation would be appreciated, especially its views as to the prospects of its giving such a hint to the American oil companies and as to the likelihood of such a hint being acted on if given.

At intervals during the past few months, officers of the American Government have made known to officers of the British Government the thought of the Department in regard to most of these points, and at the same time officers of the Department have expressed to representatives of the American oil interests certain views with the expectation that those views would be made known by the latter to their British associates and by them to officers of the British Government. The Department welcomes the statement and the inquiry under reference and avails itself of the opportunity thereby afforded to recapitulate and, in the light of the existing situation, to make known its views, as follows:

When first approached on the subject of the Japanese Petroleum Law, by a representative of British and Netherland petroleum interests and a representative of American petroleum interests, together, officers of the Department expressed the view that the situation (problem) in Japan and the situation (problem) in Manchuria, though separate, were closely related and should be considered together. Officers of the Department further expressed the view that no protests of such character as the British and the American Governments were likely to be able to engage in would be effective unless it was apparent to the Japanese and the "Manchukuo" authorities that there stood in the offing some form of a potential action such as withholding of oil supplies. At that time tentatively and later with more definiteness, officers of the Department made known their view that it should not be expected that the American Government would take formal steps toward influencing American oil interests toward the setting up in this country of an effective embargo upon exports of oil. The suggestion was made and has at intervals been repeated, to the American companies most directly concerned, that they confer with the other companies whose action along with theirs would affect this

situation and endeavor to bring about cooperation in dealing with the situation along lines which might be agreed upon between them and the British and Netherland interests. It is understood that efforts have been made, with some show of progress, toward that end.

It is not clear from the British Embassy's memorandum whether the suggestion therein communicated envisages refusal to supply crude oil only; and, whether it envisages refusal in relation to the Manchurian Oil Company's refinery only. The Department would welcome further information on these points.

The Department doubts whether the withholding of petroleum supplies, even in their entirety and from the whole of Manchuria, would, unless the embargo be extended so as to comprehend also Japan, have the effect of causing a modification of the Manchurian (oil) policy. To whatever extent refusal is made to supply oil to Manchuria, so long as oil is supplied to Japan it should and probably would be possible for the Japanese Government and Japanese interests to take care of the needs for oil in Manchuria: toward the procuring and the delivery of oil to Manchuria Japan probably would act as a middleman. The Department doubts the advisability of an effort by governmental action to attempt at this time to coerce Japan through and by an embargo on the supplying of oil to that country. The procuring of oil is a matter of comparatively great importance to Japan. Denial to Japan of petroleum supplies would probably be regarded by the Japanese military element, especially their Navy, as a very serious step on the part of foreign governments party thereto toward coercing Japan.

At the same time, the Department shares the view of the British Government that refusal to supply oil for the Manchurian Oil Company's refinery would be fully justified and that show of firmness would probably serve a useful purpose toward discouraging the spread of monopolies in Manchuria, China and even Siam. It shares the view of the British Government that such spread of monopolies would be highly undesirable and should be discouraged. It feels, however, that refusal to supply oil, whether to the refinery or to Manchuria as a whole or to these and Japan, and whether crude oil or all oil, would be a step the taking of which should be left to the oil interests.

The Department has repeatedly expressed its views to leading representatives of outstanding American oil companies, has recently reviewed the matter with those representatives, and will continue to keep in close touch with them. It believes that the question of action which may be taken by the American oil interests in cooperation with the British and Netherland oil interests may best be worked out between and among those interests. It is the Department's present understanding that the American oil companies most concerned have

reason to expect friendly cooperation from certain other important American oil companies but that these interests, while extending their efforts in the matter, are not yet in position to affirm with any degree of certainty that an effective embargo on the shipment of American oil to Manchuria would thus be attained.

[WASHINGTON,] April 16, 1935.

893.6363 Manchuria/173

Memorandum by Mr. Raymond C. Mackay of the Division of Far Eastern Affairs of a Conversation With Mr. Kersey F. Coe of the Standard-Vacuum Oil Company, New York

[WASHINGTON,] April 18, 1935.

Mr. Coe, by means of a telephone call from New York, requested that the Department be so kind as to forward to the American Embassy at Tokyo for transmission by it to Mr. Parker of the Standard-Vacuum Company a paraphrase of a message as follows:

"As impossible to shut out California crude have advised Defriest our opinion at least 25 cents per barrel premium over well price should be quoted by interested parties Pacific Coast for Manchuria. Also developing possibility handling Anglo-Ecuadoran stock. Have you any suggestions which may help situation. Dundas." [96]

In explanation of the foregoing, Mr. Coe stated that Mr. A. H Defriest, vice president of the General Petroleum Corporation (subsidiary of the Standard-Vacuum Oil Company), was unsuccessful in his endeavors to cause other California companies to refuse to make shipments of crude oil to Manchuria; that there exists, however, a distinct possibility that the California companies will agree among themselves to quote for the Manchurian trade only at a premium; and that in the opinion of the Standard-Vacuum Oil Company the premium, over the well price, should be not less than 25 cents per barrel.

Mr. Coe also stated that the Anglo-Ecuadoran Company had made at least one shipment of crude oil to Manchuria; that the Standard Oil Company of New Jersey would endeavor, through its connections in South America, to "bring the company into line"; and that the New York representative of the Asiatic Petroleum Company would recommend by cable to its London office that pressure be brought to bear upon the Anglo-Ecuadoran Company not only by the Asiatic Petroleum Company but also by the British Foreign Office.

---

[96] This message, in paraphrase, was sent to the Ambassador in Japan for Mr. Parker as telegram No. 65, April 18, 6 p.m.

Mr. Mackay stated his opinion that even if all oil supplies from the two Americas were shut off from Manchuria such action would not seriously cripple the Monopoly as in that event it could, and probably would, turn to native oil dealers in Japan. Mr. Coe agreed but added that the principally interested foreign oil companies desired to make clear to all that the Monopoly will encounter many obstacles and that it will have to "pay through the nose" for its supplies.

893.6363 Manchuria/175 : Telegram

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

TOKYO, April 22, 1935—10 a.m.
[Received April 22—5:47 a.m.]

89. Department's 65, April 18, 6 p. m.[97] Following paraphrased message for Dundas, Standard-Vacuum Oil Company, New York:

"With reference to your telegram of April 18, the lines on which you are working meet with our full concurrence. However, all the principal Japanese refiners participate in the ownership of the Manchuria Oil Company and therefore to have any practical effect the same quotations must apply to sales of crude oil to Japan. In the opinion of all here the quoting of higher prices to Manchuria will result only in the diversion to Manchuria of additional supplies which will be ordered for Japan. We assume that in any event there is no idea that any of our associated interests or the Texas Company shall quote. This is the policy upon which we recently agreed and we believe that it would be extremely unwise and would undoubtedly prejudice our claim for compensation to deviate at this time. According to analysis of the first cargo just received of Anglo-Ecuadorian crude gravity is 40 plus and gasoline yield about 36 percent.

There will be practically no difference as against Kettleman 37 in cost to Japanese refiners. Parker".

GREW

893.6363 Manchuria/176 : Telegram

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

TOKYO, April 22, 1935—noon.
[Received April 22—6 a.m.]

90. 1. The Netherlands Legation has received from the Japanese Government an *aide-mémoire* dated April 17 in reply to its representations of December 13. The argumentation in general is similar to that contained in the *aide-mémoire* received by the British and American Embassies but also includes the following points.

---

[97] Not printed; see footnote 96, p. 903.

(*a*) It is not thought that the monopoly intends to obtain all its supplies from the Manchurian Oil Company.

(*b*) The Manchukuo government has not guaranteed to buy the whole or the greater part of the output of the Fushun Shale Oil refinery.

(*c*) Although the Manchuria Oil Company has a refinery in the Kwantung Leased Territory and the Japanese authorities will exercise some control over the petroleum industry in the South Manchuria railway zone, nevertheless the monopoly system in Manchukuo is no concern of the Japanese Government.

(*d*) The Japanese Government has no connection with the activities of the South Manchuria Railway Company which is a limited company.

2. The Netherlands Minister has telegraphed for instructions and will await their receipt before taking action.

By mail to Peiping.

GREW

893.6363 Manchuria/177 : Telegram

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

TOKYO, April 23, 1935—5 p.m.
[Received April 23—7 : 47 a.m.]

91. Embassy's 81, April 11, 6 p. m. paragraph 5—oil monopoly in Manchuria.

1. The Embassy is informed that legal counsel of Standard-Vacuum will consult with the Department in the near future concerning the Company's claim for damages for the loss of its business in Manchuria. The principal questions at issue appear to be:

(*a*) Will the American Government present this claim on behalf of the company although local legal resources have not been utilized?

(*b*) If so, to what government or authorities will the claim be presented?

(*c*) If the company offers to sell its properties and equipment (except stocks of oil) to the monopoly, could this action be construed as voluntary retirement from the field and thereby prejudicial to its claim?

2. The Embassy's opinion in regard to (*a*) is that local legal recourse is impracticable as the Japanese courts would almost certainly dismiss the claim on the ground that Japanese courts have no jurisdiction over causes arising from acts of the Manchukuo regime, and as far as the Embassy is aware no adequate legal machinery for a claim of this importance exists as yet in Manchukuo.

In regard to (*b*) it would seem advisable to present the claim to the Japanese Government, as it is not believed that any satisfaction

could be obtained from the Manchukuo regime if the claim should be presented directly to that regime, while a better chance of success might exist if Japan, even though refusing responsibility, should consent to act as mediator. The question of leverage, if any, would here arise.

In regard to (*c*) it would seem that the sale would not seriously injure the claim if the sale were made "without prejudice to any future claims."

3. The British oil interests have requested their Embassy's advice in regard to their claim and the British Embassy will probably consult its Foreign Office in the near future.

4. Parker is leaving Japan for the United States on April 26 (April 25 in America) and would greatly appreciate the Department's opinion in regard to question (*c*) before his departure.

GREW

893.6363 Manchuria/177 : Telegram

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

WASHINGTON, April 24, 1935—7 p. m.

67. Your 91, April 23, 5 p. m. Legal counsel of Standard-Vacuum has consulted with Department and Department understands that Standard-Vacuum is telegraphing Parker substantially as follows (in paraphrase) :

"Company, after such consultation, advises Parker that declaring facilities to the monopoly should not prejudice presentation later of a claim; company feels that practical solution would be to offer stocks, equipment and plant, including those at Dairen if Parker considers desirable, at a comprehensive price which would cover all damage sustained as result of monopoly, including all items mentioned in Parker's telegram of April 22; in case settlement be achieved on that basis there would be no need for filing claim; if result be partial or unsatisfactory, claim could thereafter be filed, and thereupon Washington would consider possibilities in reference thereto in then existing circumstances; probably no need for advance recourse to courts. Washington suggests that you seek to make your and friends' action coincide and correspond; and that companies should by negotiation make every effort to obtain compensation in full before there is considered the question of presenting claims to the governments concerned. Embassy is being instructed by Washington."

You will realize that this means that Department and Standard-Vacuum feel it best for the oil interests at this point to endeavor to make the best settlement they can with the local authorities and monopoly in Manchuria, leaving the question of possible claims and governmental action to the future.

Late this afternoon, legal counsel was informed by telephone from New York that British interests had telephoned from London giving account of British Government's attitude indicating that British Government's thought apparently parallels ours as indicated above.

HULL

893.6363 Manchuria/182 : Telegram

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

TOKYO, April 26, 1935—5 p.m.
[Received April 26—8 : 50 a.m.]

93. Department's 67, April 24, 7 p. m.

1. After consultation today between representatives of the American and British Embassies and oil companies, including Parker, the oil companies decided to adopt the following procedure, subject to confirmation from their head offices and approval of the two Governments.

(*a*) As the monopoly under the ordinance is not authorized to purchase anything other than the physical properties of former oil merchants, the oil companies will offer to sell plant and equipment, employing the form provided for the purpose.

(*b*) They will not include the stocks in the offer but will attempt to withdraw these from Manchuria.

(*c*) They will attach to the offer a statement to the effect that the value of the properties cannot be separated from the value of the business as a whole and as a going concern; they will state the value of the business, giving details, and ask to be reimbursed for the total sum.

(*d*) They propose to file this offer and claim with the Finance Department of the Manchukuo government but ask that the Embassies simultaneously file copies with the Japanese Government, with reference to those parts of our respective representations affirming the responsibility of the Japanese Government.

2. This Embassy perceives no objection to this proposed procedure and requests instructions including form and general phraseology of presentation.

3. The British Embassy likewise approves of the procedure but suggests that care be taken to avoid giving the Japanese any opportunity to escape a sense of responsibility in the matter.

4. The local representative of the Shell interests who has no authority to decide upon procedure, is referring the plan to London.

To Peiping by mail.

GREW

893.6363 Manchuria/182 : Telegram

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

WASHINGTON, April 26, 1935—8 p. m.

68. Your 93, April 26, 5 p. m. Representatives of Standard-Vacuum plan to call at Department April 29 for further discussion.

Meanwhile, in the light of Department's views as set forth in penultimate paragraph of its 67, April 24, 7 p. m., you should make no commitment to any other line of procedure.

HULL

893.6363 Manchuria/210

The Consul General at Mukden (Ballantine) to the Minister in China (Johnson) [98]

No. 89 MUKDEN, April 30, 1935.

SIR: I have the honor to refer to my despatch No. 85 of April 24, 1935, and previous despatches concerning the oil monopoly, and to report that Mr. Yoshizawa, who has been for the past two years Japanese Consul General in Hsinking, and has recently been assigned to the Japanese Embassy in Washington, called Sunday on both my British Colleague and myself. Although both conversations were of general nature, Mr. Yoshizawa specially inquired of both Mr. Butler and myself whether the foreign oil companies intended to leave Manchuria. Mr. Butler informed him that they would leave; I stated that I had no official knowledge of their plans, but that their departure seemed very probable.

Both the Japanese press and a Rengo article which appeared in the Tientsin English Newspapers have reported the probable departure of the foreign companies, so that Mr. Yoshizawa's inquiry was ostensibly entirely natural. There are other indications, however, that the Hsinking authorities are surprised, and perhaps perturbed, at these reports of withdrawal. Mr. Clarke, formerly British Vice Consul at Mukden, returned Sunday from a trip to Hsinking, and reported that during a conversation with Mr. Ohashi, Vice Minister of Foreign Affairs for "Manchukuo", Mr. Ohashi intimated that if the foreign firms remained monopoly legislation would be loosely interpreted and enforced in order to allow them to continue in business. Mr. Clarke also had an interview with General Minami, during which General Minami stated that if the foreign firms had sent their directors to Hsinking when the monopoly question was first being discussed, he believed that a mutually satisfactory agreement could have been reached at that time.

---

[98] Copy transmitted to the Department by the Consul General in his unnumbered despatch of April 30; received May 28.

Mr. Jones, Assistant Manager of the Standard-Vacuum Oil Company returned today from a trip to Tokyo where he discussed the monopoly question with his directors and with the American Embassy. The Mukden branch has been instructed to submit to the "Manchukuo" authorities before May 10 a list of their properties in "Manchukuo", with valuations, for purchase by the authorities in accordance with the "Law for the Purchase of the Equipment of Existing Businesses". This list is to contain a statement reserving the company's rights to additional claims at a later date for good will, cost of exporting stocks, and all other losses caused by the institution of the monopoly. All three companies have been instructed to postpone their application for withdrawal of stocks (see my despatch No. 85 of April 24, 1935) until further instructions; Mr. Jones believes, however, that this postponement is designed merely to facilitate the collection of accounts from Chinese agents, and that such application will be made by all companies as soon as outstanding accounts are settled. Mr. Jones received the impression that all three foreign companies are preparing to withdraw entirely from Manchuria and to refuse to cooperate with the monopoly in any way, and that no compromise short of an abandonment of the monopoly will cause the companies to reconsider withdrawal.

The Mukden oil representatives and I are agreed that it is desirable for the companies to submit their applications for withdrawal of stocks and sale of property as soon as possible, in order to bring their policy of withdrawal forcibly to the attention of the authorities, and impress upon them the necessity for quick action if they desire the foreign companies to remain. The Mukden oil representatives are recommending to their head offices that these applications be submitted at an early date. The Standard-Vacuum Oil Company reports that bus services in Jehol have been curtailed because of a gasoline shortage, and it is believed that gasoline shortages will occur at other points soon as the foreign companies' local stocks become exhausted and the burden of supply falls more and more upon the monopoly.

Respectfully yours, J. W. BALLANTINE

893.6363 Manchuria/189 : Telegram

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

WASHINGTON, May 1, 1935—10 a.m.

72. Standard-Vacuum Company requests that following message (paraphrased by Department) be transmitted to its senior representative in Japan:

"Reference our cable April 24 and Parker's cable April 26. In view of your decision, of which we and Washington approve, to follow

principle of salvaging our investment as much as possible by an offer by us of sale to the monopoly, it is our opinion that process of salvage should also include stocks and that computation of good will should be based on a percentage, including value of stocks, of total investment. We do not believe that inclusion of stocks in your offer under conditions of *force majeure* would in any way conflict with our general policy of avoiding dealing with monopolies. We feel that to base a claim for good will on a profit basis would not be wise because it may ultimately become necessary to defend the basis of calculation of a lump sum proposal and if good will represents a large figure it would be used in justification of monopolies, would react to our detriment in other countries, and would accentuate our tax problems. For ultimate satisfaction of our claim we agree that we should continue to look to Japan but only when there has been established a definite claim. That there is a distinction between an offer and a claim and that your offer to sell the physical assets to the monopoly will only in the event of a merely partial or unsatisfactory settlement become a claim should be borne in mind. This applies also to good will and other items.

Washington feels, and we concur, that in view of diplomatic and treaty background it would not be expedient for Embassy to file a copy of our offer to the monopoly with the Japanese Government. If Manchuria authorities reject our offer or accept it only in part and it later becomes necessary to file a claim, Washington will be in a much better position to assist than if Embassy acts on your proposal that it now file with Japanese Government a copy of your offer.

Results of further conference with Washington are indicated above.

We leave to your discretion settlement of dismissal allowances.

We will communicate with Parker at Honolulu and for obvious reasons strongly advise against relaying this message to him.

Embassy is being instructed by Washington. Dundas."

Department's instructions follow.[99] HULL

893.6363 Manchuria/182 : Telegram

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

WASHINGTON, May 1, 1935—11 a. m.

73. Embassy's 93, April 26, 5 p. m. and Department's 72, May 1, 10 a. m. Following further discussion with Department on April 29 representatives of Standard-Vacuum decided, with Department's approval, to instruct their representatives in Japan as per their message transmitted by Department in telegram 72, May 1, 10 a. m.

Department assumes that if British oil interests are similarly minded the procedure outlined in that message will be agreed upon and be followed by both oil interests. If there exists or appears divergence of view or intention, please inform Department promptly.

---

[99] *Infra.*

Department has considered carefully Embassy's 93, April 26, 5 p. m. However, as present primary desire of Standard-Vacuum, and presumably also of the British interests, is to salvage as much as possible of their investments in Manchuria, Department feels that best chance for ultimate success would lie in first a direct approach by oil interests to the monopoly and/or authorities in Manchuria. This would involve offers by the interests to sell, including all items, rather than presentation by governments of claims. Department feels that, at least until such time as possibilities of negotiation by the companies in Manchuria have been exhausted, presentation of claims by companies or Embassies to Japanese Government would be unwise, as Japanese Government probably would at once disclaim all responsibility and, if it made any offer of assistance, be disposed to insist that its sole capacity in the matter should be that of a mediator. Department therefore desires that you continue to cooperate with the American interests in consultation and advisory capacity and report promptly all developments of importance but make no approach to the Japanese Government in regard to this subject until further advised.

Department feels that its views and those of the company as indicated above and in Department's 67, April 24, 7 p. m. are in no way a departure from or inconsistent with the principles and line of action hitherto followed by the American and British interests and Governments in connection with this case.

HULL

893.6363 Manchuria/177 : Telegram

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

WASHINGTON, May 2, 1935—9 p. m.

102. Department's 96, April 26, 7 p. m.[1] Following conference with Department on April 29 representatives Standard-Vacuum telegraphed their senior representative in Japan amplifying their previous message quoted in Department's telegram under reference and in effect again recommending that procedure outlined in that message be followed. Company's New York office feels that there should be salvaged by offer of sale to monopoly as much as possible of its investment in Manchuria; that such offer under existing conditions of *force majeure* would not conflict with company's policy of avoiding dealings with monopolies; that in view of diplomatic and treaty background it would not be expedient for Embassy to file with Japanese Government copy of company's offer to monopoly; and that if Man-

[1] Not printed; it repeated Department's telegram No. 67, April 24, 7 p. m., p. 906, and added subsequent information.

churia authorities reject company's offer or accept it only in part and it later becomes necessary to file a claim, American Government would be in better position to assist than if copy of company's offer were now filed by Embassy with Japanese Government.

Department has informed American Embassy, Tokyo, of its assumption that if British oil interests are similarly minded the procedure suggested by Standard-Vacuum will be agreed upon and followed by both oil interests; that Department feels that best chance for ultimate success would lie at least as a first step, in a direct approach by oil interests to the monopoly and/or authorities in Manchuria; that such procedure would involve offers by the interests to sell, including all items, rather than presentation by governments of claims; and that until such time as possibilities of negotiation by the companies in Manchuria have been exhausted, presentation of claims by Embassies to Japanese Government would be unwise as that Government would probably at once disclaim all responsibility and, if it made any offer of assistance, would probably be disposed to insist that its sole capacity in the matter should be that of a mediator.

Department feels that its views and those of the company as indicated above and in Department's 96, April 26, 7 p. m., are in no way a departure from or inconsistent with the principles and line of action hitherto followed by the American and British interests and governments in connection with this case.

You may in your discretion impart orally to Foreign Office substance of the foregoing, in which event you should express the hope that British Government's view coincides.

Report promptly any indication of divergence of view.

HULL

893.6363 Manchuria/189 : Telegram

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

WASHINGTON, May 3, 1935—6 p. m.

104. Department's 102, May 2, 9 p. m. For your information and, in your discretion, oral transmission to the Foreign Office.

On May 2 American Embassy, Tokyo, telegraphed Department to the effect that as there exists between American and British oil interests no divergence of view in regard to scope of offer and method of presentation, Standard-Vacuum and Rising Sun will follow procedure outlined in Department's telegram to Tokyo of April 24 (see Department's 96, April 26, 7 p. m.[2]).

HULL

---

[2] See footnote 1, p. 911.

893.6363 Manchuria/193 : Telegram

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

LONDON, May 4, 1935—1 p. m.
[Received May 4—9 : 34 a. m.]

204. The sense of the Department's 96, April 26, 7 p. m.,[3] and 102, May 2, 9 p. m. conveyed yesterday to the Foreign Office who made the following observations.

1. British Ambassador at Tokyo has given no indication to the Foreign Office of preferring that the oil companies' claims be filed now instead of awaiting result of offer to sell properties.

2. Foreign Office, after considering matter, is of the opinion that should oil companies offer to sell properties now the possible theoretical prejudice to a subsequent claim is not worth taking into account.

3. British oil interests have not definitely expressed to the Foreign Office their views on the question of whether the first step should be an offer to sell properties or the filing of claims. As far as the Foreign Office is concerned therefore the question is still "liquid" awaiting the views of the British companies, but the Foreign Office saw no divergence of views between the British and the United States Governments.

4. Information contained in Department's 104, May 3, 6 p. m., conveyed to Foreign Office this morning.[4]

BINGHAM

893.6363 Manchuria/198 : Telegram

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

WASHINGTON, May 4, 1935—2 p. m.

75. Your 94, May 2, 5 p. m.[5] For your information. According to Standard-Vacuum, New York office of Asiatic Petroleum received from London on May 2 a telegram to the effect that it has also been decided in London that the Asiatic Petroleum should in the first place apply only to Manchuria and should not approach Tokyo unless it later becomes necessary to make a claim.

HULL

---

[3] See footnote 1, p. 911.

[4] In repeating most of this telegram to the Ambassador in Japan, the Department, in its telegram No. 77, May 8, 6 p. m., stated: "Department has kept London Embassy fully informed of recent developments." (893.6363 Manchuria/193)

[5] Not printed.

893.6363 Manchuria/213

The Consul General at Mukden (Ballantine) to the Minister in China (Johnson)[6]

No. 92 MUKDEN, May 4, 1935.

SIR: I have the honor to refer to previous correspondence concerning the "Manchukuo" oil monopoly, and to inform the Legation that the Standard-Vacuum Oil Company, the Texas Company (China) Ltd., and the Asiatic Petroleum Company under instructions from their head offices, yesterday addressed letters to the Ministry of Finance requesting permission to export from "Manchukuo" all their stocks of kerosene, gasoline and fuel oil, including those on consignment with their agents; they also requested refund of import duty on the exportation of these stocks. Copies of these letters are enclosed;[7] these letters were drafted at a meeting held yesterday at the British Consulate General at which the oil companies' representatives and I were present.

A copy of a personal letter which I addressed today to Mr. Tani, Secretary of the Japanese Embassy in Hsinking, is also enclosed.[8] Mr. Butler, my British colleague, wrote a similar personal letter to Mr. Ohashi, Vice Minister of Foreign Affairs. Both Mr. Tani and Mr. Ohashi have expressed their sympathy with the position of the oil companies, and Mr. Butler and I desired to keep open all avenues of mediation in the event that this latest action of the oil companies elicits from the "Manchukuo" authorities any concessions worthy of consideration. Mr. Butler and I read drafts of these letters to the oil companies' representatives, who expressed their complete approval of our action. It was the opinion of the meeting that the authorities of the Ministry of Finance, being primarily responsible for the institution of the monopoly, would be less likely to be influenced by this action than officials in other departments, and that our letters to Mr. Ohashi and Mr. Tani might enable them to exert their influence in circles outside the Ministry of Finance toward an abandonment of the monopoly if condition seemed at all favorable for the exercise of such influence.

It is not unlikely that these applications for withdrawal of stocks will prompt the "Manchukuo" authorities (1) to offer to buy these stocks, and (2) to invite the oil companies' representatives to discuss the question of withdrawal. The Mukden representatives have received no instructions on these points, and could act upon such invitations only after referring them to their head offices. They believe,

[6] Copy transmitted to the Department by the Consul General in his unnumbered despatch of May 4; received June 1.

[7] None printed.

[8] Not printed.

however, that their directors would not accept an offer to sell to the monopoly, and that any representatives sent to Hsinking would be empowered only to listen to such proposals as the authorities might make, and not to enter into a general discussion.

All three companies are now engaged in preparing their list of properties, with valuations, and expect to be able to submit them to the authorities before May 10.

Respectfully yours, J. W. BALLANTINE

893.6363 Manchuria/217

The Consul General at Mukden (Ballantine) to the Minister in China (Johnson)[9]

No. 99 MUKDEN, May 18, 1935.

SIR: I have the honor to refer to my despatch No. 92 of May 4, 1935, transmitting the applications[10] of the foreign oil firms for the withdrawal of their stocks, and to enclose a translation of a reply[11] dated May 11 from the Ministry of Finance. The Ministry states that "refund of import duty on reexports is not permissible under the existing customs tariff law"; that the Ministry however desires to "afford facilities" to the foreign companies; and that the Ministry would be glad to discuss "the circumstances which render it necessary for the companies to re-export" their stocks.

In response to this invitation, the companies plan to send representatives to Hsinking on May 21; the representatives are instructed to limit their discussion to a statement that the institution of the monopoly forces them to withdraw stocks.

The Mukden branches of the companies have recently been instructed to estimate market requirements as compared with the monopoly's supplies, as a basis for determining the companies' policy concerning the sale of stocks in Manchuria, and future sales ex Dairen to the army. They have reported to their head offices that the monopoly's gasoline stocks are not ample, and that for the time being importations will be required, but that the companies' gasoline distributing equipment is not essential to the monopoly; that no kerosene shortage is to be expected in view of the large stocks already in the hands of dealers and the restricted summer market. They also reported that the monopoly will not need to acquire their interior installations immediately for distribution purposes, but may eventually desire additional storage facilities.

Respectfully yours, JOSEPH W. BALLANTINE

[9] Copy transmitted to the Department by the Consul General in his unnumbered despatch of May 18; received June 7.

[10] None printed.

[11] Not printed.

893.6363 Manchuria/225

The Consul General at Mukden (Ballantine) to the Minister in China (Johnson)[12]

No. 101 MUKDEN, May 23, 1935.

SIR: I have the honor to refer to my despatches Nos. 99 and 100 of May 18 and May 21, 1935,[13] regarding the "Manchukuo" Petroleum Monopoly, and to inform the Legation that according to a report made to me today by Mr. Bristow of the Standard-Vacuum Oil Company, he and representatives of the Asiatic Petroleum Company called on Mr. Hoshino, Director of the Bureau of General Affairs of the Department of Finance, on May 21, in response to the latter's invitation to discuss with him the reasons for the companies' request to withdraw their stocks from the country. The representatives explained that their request was prompted by the fact that under Ordinance No. 4 of the Department of Finance the companies were prevented from making further sales of the products which are the subjects of the Monopoly. Mr. Hoshino, after examining the text of the ordinance, admitted that the restriction claimed had been imposed on their trade. Mr. Hoshino then made the following proposals, which were embodied in a written memorandum in Japanese:

1. Marketing in the country will be allowed of petroleum import formalities for which have been completed.
2. (The Government) is prepared to allow Government dealers to buy up such petroleum.
Therefore if your companies wish that the dealers buy instructions will be issued that they may purchase.
An expression of the companies' wishes in regard to this point will be awaited.
3. Marketing may also be done by dealers other than dealers designated by the Government.
4. If it is necessary for the purpose of selling out the foregoing appropriate assistance and help will be rendered.
5. If it is desired to sell to the Government stocks in bonded warehouses proposals therefor will be entertained. Provided, these shall not be marketed in the country.

The representatives replied that they would refer these proposals to their head offices for decision, but they expressed the tentative opinion that they came too late for the following reasons: (1) low seasonal demand; (2) large dealer stocks; (3) difficulty of extending further dealer credits; (4) the disruption of agency organization effected by the enforcement of the Monopoly Law and by the

[12] Copy transmitted to the Department by the Consul General in his unnumbered despatch of May 23; received June 15.
[13] Latter not printed.

Monopoly activities; and (5) the expense of maintaining a sales organization for the sole purpose of disposing of these remaining stocks.

The companies have reported to their head offices that their opinion remains unchanged that the kerosene stocks are not necessary to the Monopoly at this time, and they therefore interpret Mr. Hoshino's proposals as being prompted by a desire to shift to the companies responsibility for the decision to withdraw stocks.

Mr. Hoshino suggested, if favorable consideration was given to his proposals, that the representatives discuss with him such difficulties as might be encountered so that he might be enabled to assist with special instructions to overcome existing legal restrictions and to facilities [*facilitate*] the movement of the stocks. In answer to his direct question, the representatives informed the director that it was a general principle of the companies not to sell their products to a Monopoly. He then volunteered the information that the Monopoly must either purchase refined products or enlarge the capacity of the refinery.

Respectfully yours, JOSEPH W. BALLANTINE

893.6363 Manchuria/218 : Telegram

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

TOKYO, June 8, 1935—6 p.m.
[Received June 8—12:10 p.m.]

124. Embassy's 90, April 22, noon, Manchuria Oil Monopoly. The Netherlands Chargé d'Affaires today delivered the Foreign Office a formal note expressing the Netherlands Government's regret that the Japanese Government judged it impossible to exert its influence to prevent the establishment of the oil monopoly; stating that the Netherlands Government cannot agree with the views of the Japanese Government in the Japanese *aide-mémoire;* and stating that the Netherlands Government is bound to uphold its views as expressed in its *aide-mémoire* of December 13, 1934.

To Peiping by mail. GREW

893.6363 Manchuria/229

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

No. 1509 LONDON, June 18, 1935.
[Received June 26.]

SIR: I have the honor to refer to the Embassy's despatch No. 1400 of April 30 last [14] enclosing a clipping from Hansard which published

[14] Not printed.

the Foreign Secretary's statement of April 29 regarding the British Government's protests to Japan on the Manchukuo oil monopoly and the texts of a Japanese *aide-mémoire* of March 25, 1935 and the British reply of April 12 on that subject.

In the House of Commons last night Sir Samuel Hoare, the new Foreign Secretary, was asked whether he had received a reply from the Japanese Government and whether he could now indicate what action is to be taken by the British Government with a view to reaching a successful conclusion in this matter at an early date. In reply, Sir Samuel Hoare stated as follows:

"No reply has been received. In the meantime the Manchukuo Oil Monopoly has come into force and in the circumstances the British and American oil companies concerned have decided that they have no alternative but to withdraw from the market. Conditions of withdrawal are understood to be the subject of discussion between the companies and the Manchurian authorities. The view taken by His Majesty's Government of the monopoly and of the responsibility of the Japanese Government is sufficiently indicated in the full reply returned by my predecessor to my hon. and gallant Friend on the 29th April last, to which I have nothing to add."

Reference was made to the above statement in an informal conversation at the Foreign Office and the Embassy was advised that the decision of the British oil companies to withdraw from the Manchukuo market does not necessarily mean that they will also withdraw from Japan where the situation is somewhat different.

As mentioned in the last paragraph of the Embassy's telegram No. 272 of June 17, 4 p. m.,[15] the Foreign Secretary was also asked in the House of Commons last night whether he had any statement to make on the present situation in China, to which he replied textually as follows:

"For various reasons the effects upon China of the world economic depression were delayed. For some months past, however, her economic situation has been one of undoubted difficulty and the position has been still further complicated by the recent rise in the price of silver. As the House will be aware, His Majesty's Government have been closely and sympathetically following developments, and they have now arranged that Sir Frederick Leith-Ross, chief economic adviser to His Majesty's Government, should proceed to China at an early date in order that he may be in a position to advise them on the situation.

Despite the financial crisis, the political situation, in recent months, was not unfavourable. There were signs of a steady progress towards order and stability and the success of the Central Government's campaign against the Communists had contributed towards an extension

[15] Not printed.

of its authority and influence. In North China, however, there have been disquieting developments during the past two weeks or so. Reports are conflicting in certain details, and the situation is liable to rapid change, but broadly it appears that the local Japanese military authorities made representations regarding persons or organizations alleged to be hostile to themselves in or near the demilitarized zone established between China and Japan by the Tangku armistice.[16] The local Chinese authorities took measures to meet those representations, but certain points remained outstanding and still appear to be the subject of local discussion.

In regard to the most recent developments in North China I have been in communication with His Majesty's representatives in Tokyo and Nanking, and through them with the Chinese and Japanese Governments. These communications are still continuing."

Respectfully yours,

For the Ambassador:
RAY ATHERTON
Counselor of Embassy

893.6363 Manchuria/231 : Telegram

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

PEIPING, July 7, 1935—9 a.m.
[Received July 7—6:10 a.m.]

343. In despatches dated June 19 and July 19 [*1*] the Mukden Consul General reports that Katakura and Company, a large and reliable Japanese firm hitherto engaged chiefly in the silk trade has, allegedly after consultation with the Japanese Ministeries of War and Finance, proposed to the Standard-Vacuum Oil Company that it be given an exclusive agency in "Manchukuo" and the Kwantung Leased Territory for the sale of all of Standard's products, including those monopolized, the management of Standard's investments and the collection of its outstanding accounts. He reports that the firm offers to sell under Standard's trademarks and to use Standard's agency organization having it is alleged the privilege of selling directly to the Japanese Army in "Manchukuo", the Japanese Government offices, the South Manchurian Railway, the "Manchukuo" State Railways, and the "Manchukuo" army; that it has apparently reached a definite understanding with the army authorities because it has expressed a willingness to guarantee the sale of some 10,000,000 gallons a year in competition with the monopoly, and to underwrite this guarantee with deposit of 1,000,000 yen. He says that the Standard representative has referred

[16] For text of the Tangku Truce Agreement between the Chinese and Japanese military authorities, signed May 31, 1933, see *Foreign Relations*, Japan, 1931–1941, vol. I, p. 120.

the proposal to his superiors. He reports also that the Texas Company appears to have abandoned its former policy of acting in concert with the other two foreign companies and that it has already sold its stocks in Manchuria to the monopoly at prices below those asked by the other firms.

JOHNSON

893.6363 Manchuria/236

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

No. 1388 TOKYO, July 11, 1935.
[Received July 27.]

SIR: I have the honor to refer to this Embassy's despatch No. 1372, dated June 28, 1935,[17] and to previous correspondence on the subject of the oil monopoly in "Manchukuo" and the difficulties of American and other foreign oil interests in that connection, and to report the following developments in the situation.

Katakura's Offer.

In despatch No. 1372 the fact that the firm of Katakura and Company, Ltd., had offered to act as the agent in Manchuria of the Standard-Vacuum Oil Company was mentioned. Since that despatch was written, correspondence between the Mukden and Yokohama offices of the Standard-Vacuum Oil Company has been made available to the Embassy, bringing to light several interesting facts. Mr. Katakura, the proprietor of Katakura and Company, it appears, interviewed both the Ministries of War and Navy in Tokyo before making his proposal to the Standard-Vacuum Oil Company. It would seem, therefore, that his offer, with all its implications, meets with the approval of the military. Mr. Itami, the President of Katakura and Company, Ltd., stated to the Mukden manager of the Standard-Vacuum Oil Company on June 8, 1935, that, with the help of the political influence of Mr. Katakura, arrangements could be made to alter the operation of the Monopoly Law so as to make it in effect an oil control law, under which private companies could compete with success. He said that the name of the law would not be changed, but only the operation. Again on July 1, 1935, Mr. Itami stated to the Mukden office of the Standard-Vacuum Oil Company that he had received a further telegram from Tokyo which encouraged him to believe that a control law could be substituted for the monopoly. Mr. Itami also stated that he would handle the products of the Shell and Texas interests, as well as those of the Standard interests, although he has as yet made no offer to either the Shell or the Texas

[17] Not printed.

interests. He stated on June 30, 1935, that his company would sell the products of the three foreign companies under their old brands, that he would make a contract for fifteen years, that his company would not be restricted to a quota in handling monopolized products, and that he expected that the Monopoly Law would be abolished in favor of an oil control law within three years.

After due consideration of the various phases of the situation, and after discussing the matter with the local representatives of the Shell interests, the Japan general office of the Standard-Vacuum Oil Company came to the conclusion that, while the Mukden office of the Company should continue to pursue the conversations with Mr. Itami in order to obtain all the information possible in regard to his proposal and the operation of the Monopoly, no encouragement should be given him that the Company will fall in with his plan. It is the opinion of the Japan general office of the Company that the plan, instead of being formulated in opposition to the Monopoly, as would appear at first glance, is being advanced with the full cognizance of the Monopoly, as it appears that Mr. Katakura consulted with the Ministry of War before making his offer and the Monopoly in Manchuria is to a certain extent under the control of the Japanese Army. It is therefore the opinion of the Company that the possibility exists that the Japanese military are dissatisfied with the operation of the Monopoly, and foreseeing the advisability of some modification, have inspired the Japanese company to make the offer. On the other hand, it is possible that the Monopoly may have been set up as a medium in a plan of ousting the foreign oil companies and supplanting them with Japanese oil companies. In any event, the Japan general office of the Standard-Vacuum Oil Company considers the offer of Katakura and Company to be a carefully-considered plan to accomplish some or all of the following objectives:

1. To ensure adequate and steady supplies of petroleum products in "Manchukuo."
2. To break down the united front of the Standard and Shell interests (this is believed probable because the offer was made only to the Standard interests, although mention was made by Katakura and Company of selling the products of the other foreign companies as well).
3. To avoid payment by the Monopoly for properties and equipment, which would be taken over, presumably on lease, by Katakura and Company.
4. To destroy any possible claim for damages due to the destruction of the Company's good-will in Manchuria (if the Company's products continued to be marketed under the Company's brands, there could be no claim for damages based on the destruction of good-will.)

The Japan general office of the Standard-Vacuum Oil Company is able to see little difference between being ousted from Manchuria by

the Monopoly and placing their Manchurian business in the hands of a Japanese company, and is inclined to believe that if there is in fact any plan to replace the Monopoly with an oil control law, action in regard to such replacement will be realized sooner if the Company does not agree to any plan such as that proposed by Katakura and Company. Moreover, the local office of the Standard interests feels that, should the Standard-Vacuum Oil Company permit itself to be replaced in Manchuria by a Japanese firm, the action would create a precedent which might encourage similar pressure on the Company in other regions where Japanese political and economic influence is predominant. For these reasons the Japan general office of the Company has recommended to the New York headquarters that the offer of Katakura and Company be declined.

There have been no other developments of importance in regard to the Monopoly during the past two weeks. Negotiations are proceeding in Hsinking between the Manchurian authorities and the local representatives of the Standard and Shell interests in regard to the sale to the Monopoly of the stocks of petroleum products remaining in the hands of the foreign oil companies in Manchuria, but as yet no agreement has been reached in regard to prices.

Respectfully yours, JOSEPH C. GREW

894.6363/202a : Telegram

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

WASHINGTON, July 17, 1935—4 p. m.

110. Your 151, July 16, 4 p. m.,[18] last paragraph, and Department's 109, July 16, 8 p. m.[19] As Standard-Vacuum has indicated to Department continued concern with regard to carrying out by Japanese authorities of assurances given orally in reference to petroleum regulation in Japan, Department suggests that in your discretion you mention this subject in the course of your final talk with the Foreign Minister.

PHILLIPS

894.6363/203 : Telegram

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

TOKYO, July 18, 1935—4 p. m.
[Received July 18—5 : 35 a. m.]

152. Department's 110, July 17, 4 p. m., petroleum regulations in Japan. The Minister for Foreign Affairs told me this morning that

---

[18] *Ante*, p. 314.
[19] *Post*, p. 981.

the matter has been discussed in Cabinet and is now under consideration of Ministers of Commerce, Finance, War, Navy and Foreign Affairs. He did not predict the outcome.

Kurusu states that he is encountering opposition by some of the Ministries to the desired modification of the law but he hopes to obtain before October 1st a satisfactory settlement by discreet use of the compelling argument that Japan is dependent on foreign oil.

GREW

893.6363 Manchuria/241

The Consul General at Mukden (Ballantine) to the Minister in China (Johnson)[20]

No. 136 MUKDEN, July 19, 1935.

SIR: I have the honor to refer to my despatch No. 127 dated July 8, 1935 [21] regarding the negotiations at Hsinking between the representatives of the foreign oil companies and the "Manchukuo" authorities concerning the disposal of their stocks, and to inform the Legation that these negotiations, according to the representative of the Standard-Vacuum Oil Company, have now reached an impasse.

I am informed that the British Consul General happened to be in Hsinking in connection with some other business at the very juncture when the oil companies' representatives had reached the point that they felt that no useful purpose could be served by further conversations. After consultation with them, the British Consul General brought up the subject with General Minami and his professed sympathy prompted the representatives to suspend negotiations for the time being in the hope that the General might intercede and bring about some favorable development.

It is the opinion of the representatives that although Mr. Hoshino, Director of the Bureau of General Affairs of the Finance Department, may find it difficult to recede from his position and make direct overtures, there is a possibility that the finance authorities will make an acceptable offer through the Mitsui Bussan Kaisha, and in fact conversations to this end are now taking place between the firm's Mukden office and the local managers of the Standard-Vacuum Oil Company and the Asiatic Petroleum Company. The Mitsui representative states, however, that his company will not act without written authority from Hsinking.

Yesterday, according to the Standard-Vacuum Oil representative, Katakura's representative offered to buy the company's stocks

---

[20] Copy transmitted to the Department by the Consul General in his unnumbered despatch of July 19; received August 13.

[21] Not printed.

entirely independently of the question of the agency proposal, which has already been reported to the Legation. The American company is not clear what this all signifies, and is adopting a waiting attitude.

I am informed that the Asiatic Petroleum Company representatives have telegraphed London that they propose informing the "Manchukuo" authorities that if the latter fail to agree to accept actual duty, distribution, freight and all usual overhead charges and try to make the companies sell below cost the companies would regard it as confiscation and would withdraw their stocks and file formal claim for losses.

The companies feel that it is essential to maintain a firm attitude towards the Monopoly in view of the effect upon their position vis-à-vis the Japanese Oil Control Law and upon future negotiations with the "Manchukuo" authorities for the liquidation of their property claims.

The companies are also now faced with the question of supplying to the Japanese Army in North China. In view of the probability that the Army contemplates shipment thence into "Manchukuo", I understand that a decision has been reached that the three companies will not supply their requirements without an undertaking that nothing will be exported. In this way the companies will demonstrate to the Japanese Army the contrast in respect to availability of supplies in monopoly and non-monopoly areas.

Respectfully yours, JOSEPH W. BALLANTINE

893.6363 Manchuria/246

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

No. 1444 TOKYO, August 23, 1935.
[Received September 7.]

SIR: I have the honor to refer to the Embassy's despatch No. 1420, dated August 7, 1935,[22] and to previous correspondence on the subject of the oil monopoly in "Manchukuo" and its effect upon American oil interests in Manchuria, and to report that, although there have been no important developments in the situation, various minor occurrences have somewhat clarified the position of the foreign oil interests.

Foreign Companies' Claims for Compensation.

Mr. Tsuge, the Petroleum Adviser of the "Manchukuo" government, called on the representatives of the Standard-Vacuum Oil Company and the Rising Sun Petroleum Company in Yokohama on August 13, 1935, and, after discussing the proposed sale of the two companies' duty-paid stocks in Manchuria to the monopoly, turned to the subject

[22] Not printed.

of the companies' offers to sell their property in "Manchukuo" to the monopoly. He said that the offers were under consideration by the "Manchukuo" authorities, but in their opinion the price was very high. It was explained to him that the offers were not simply for the sale of property, but were offers to sell going concerns and the prices were therefore justified. Asked whether he agreed to the principle of compensation to the oil companies for the loss of their business in Manchuria, he replied that he did "to some extent". He also intimated that the sales of both the stocks and the properties to the monopoly would be greatly facilitated if the companies would agree to supply the Manchuria Oil Company with crude oil and the monopoly with refined products. He stated that the monopoly was working very smoothly and that the Manchuria Oil Company was deluged with offers of crude oil, but he nevertheless seemed most anxious to enlist the Standard-Vacuum Oil Company and the Rising Sun Petroleum Company as suppliers to the Manchuria Oil Company and the monopoly.

From the conversation of Mr. Tsuge, therefore, it would appear that the foreign oil companies have some chance of recovering something for the invalidation of their properties and the loss of their business in Manchuria, although it is believed that the amount recovered will be small unless the companies agree to supply the monopoly and the Manchuria Oil Company with the oils desired.

Katakura's Offer.

Discussions were held at Yokohama between the local officials of the Standard-Vacuum Oil Company and Mr. Itami, the President of Katakura and Company, on August 6 and August 14. From these discussions it developed that Katakura's original offer to act as agents of the Standard-Vacuum Oil Company in Manchuria had no governmental backing, but was made by Katakura and Company in the expectation that that Company would be able to supply large buyers such as the Kwantung Army and the South Manchurian Railway with the foreign companies' oils at lower prices than were being charged by the monopoly. In the course of the conversation it developed that the Kwantung Army dislikes paying Yen 1.30 more per unit for its supplies of oils than it did before the monopoly was instituted. Before his second interview with the Standard-Vacuum Oil Company, however, Mr. Itami obtained governmental permission to handle the brands of the three foreign oil companies previously operating in Manchuria, to the amount of the shortage of supplies in Manchuria, but the authorities also stipulated that the three companies should agree to supply crude oil to the Manchuria Oil Company.

The Standard-Vacuum Oil Company and the Rising Sun Petroleum Company are not inclined to favor the offer of Katakura and

Company, as they feel that by supplying the shortage of oils in Manchuria they will be assisting the monopoly rather than undermining its influence.

Katakura and Company also offered to buy the foreign companies' duty-paid stocks in Manchuria at prices considerably above the prices offered the companies by the monopoly. In the meantime, however, the monopoly has given permission to the remaining agents of the foreign oil companies to continue to sell the companies' stocks, until such stocks are exhausted, and as the Standard-Vacuum Oil Company and the Rising Sun Petroleum Company estimate that they can dispose of their remaining duty-paid stocks in this way in three to four months, they are not disposed to accept any offer which will require them to make any considerable concession in prices.

Respectfully yours, EDWIN L. NEVILLE

894.6363/210 : Telegram

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

TOKYO, September 28, 1935—noon.
[Received September 28—3 : 37 a.m.]

187. Embassy's 152, July 18, 4 p. m.

1. At a meeting yesterday between the Vice Minister for Commerce and Industry, Kurusu, and the representatives of the Standard and Shell interests, the Vice Minister explained the present status of the oil problem as follows:

(*a*) The 6 months' oil storage requirements will be postponed from October 1, 1935, to June 30, 1936, but this is only a postponement and the Government will insist on the storage of 6 months' stocks for reasons of national defense and to provide for emergencies.

(*b*) The Government will endeavor to provide compensation, amounting to the carrying charges of 3 months' stocks, but it is questionable whether or to what extent the Finance Ministry and the Diet will approve such expenditure.

(*c*) In view of the fact that some Japanese oil companies are already storing 6 months' supplies they will be compensated for their extra expenditure by receiving quotas providing for larger shares of the natural increase for 1936. The foreign oil companies will therefore receive very little or possibly no share of the natural increase for 1936 unless they signify their intention to fulfill the 6 months' storage requirement in the near future.

(*d*) For social reasons, no price advance will be granted in the immediate future but next year a price advance covering both advance on economic grounds and advance as compensation for storage will be considered.

2. The local representatives of the foreign oil interests do not consider the above to be in accordance with the informal agreement

reached last April between the Japanese officials and the special representatives of the oil interests and so informed the authorities yesterday. The authorities replied that their change of attitude was due to the fact that they are contemplating compensation for part of the cost of storage.

3. Referring to the last paragraph of the Embassy's despatch number 1060, dated November 16, 1934.[23] In view of the fact that the Vice Minister for Commerce and Industry stated definitely that the storage requirements are a national defense measure, it appears possible that those requirements might be considered as contravening the last paragraph of Article 1 of the American-Japanese Treaty of 1911.[24] If, in the opinion of the Department, no action can be taken on treaty grounds, there appears to be no further step for the American oil company but to withdraw from Japan or drastically to curtail its operations here.

NEVILLE

894.6363/210 : Telegram

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

WASHINGTON, October 7, 1935—noon.

160. Your 187, September 28, noon, last paragraph. In the event that the Japanese Government should indicate that it is not prepared to compensate adequately the Standard Oil Company for such costs as it may incur in maintaining stocks in excess of the 3 months' supply which it is understood the company is prepared to carry at its own expense, and provided the company is penalized in any way, including that indicated in paragraph (*c*) of your telegram under reference, for failure to comply with the announced stockholding requirements, Department is inclined to believe that, if the company should desire further representations on its behalf, the Embassy could with propriety make known to the Japanese Government the opinion of the American Government that requirement by the Japanese—for purposes, as now stated by Japanese authorities, of Japanese national defense—that American companies store and hold, at their own expense and without adequate compensation, quantities of oil and properties accessory thereto not needed in their business, would in effect constitute a "military exaction" and as such be a violation of the terms of the final paragraph of Article 1 of the American-Japanese Treaty of 1911.

It is suggested that the Embassy gather and forward to Department, with statement of its views and recommendations, such additional evidence as may be available in support of the contention that

---

[23] For extract, see *Foreign Relations*, 1934, vol. III, p. 758.
[24] *Ibid.*, 1911, p. 315.

the stockholding requirement of the oil law constitutes a military exaction and thereafter await the Department's further instructions. Make no representations to Japanese Government on this point until further instructed by Department.

HULL

893.6363 Manchuria/253 : Telegram

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

PEIPING, October 15, 1935—5 p.m.
[Received October 15—1 : 35 p.m.]

64. Standard-Vacuum Oil Company has requested Consular cooperation in obtaining evidence to support diplomatic claim for losses sustained in consequence of the operation of the Manchukuo Oil Monopoly. Company states that the American and British Embassies at Tokyo have urged the foreign oil companies to endeavor to obtain a definite statement of the intention of the Manchukuo government towards the payment of the claims presented on May 10 but expresses doubt whether it will be possible for the companies to obtain a written statement from the government on this point. Company feels that if a Consular officer is present when oral statements are made to the company's representative it will provide the evidence necessary [for a] diplomatic claim.

I have informed Consul General at Mukden that he would appear to be warranted in his discretion in addressing to Manchukuo officials oral and informal inquiries regarding their attitude or decision in respect to the claim of the American oil companies, and that it would also lie in his discretion whether representatives of the American oil companies accompanied him at such interviews. I have informed Mukden that, although it is not clear how anything would be gained by such an inquiry at the present time since the obvious reply of the Manchukuo authorities would be that steps have already been taken to examine into the claims, nevertheless, if the Standard-Vacuum Oil Company so desires and it can be arranged it might be useful if the Consul General or a member of his staff could be present at the discussions with the Manchukuo authorities.

JOHNSON

893.6363 Manchuria/253 : Telegram

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

WASHINGTON, October 17, 1935—5 p.m.

28. Your 64, October 15, 5 p. m.

1. Based upon such information as is now available, Department

is inclined to approve of your instructions to the Consul General at Mukden as outlined in the second paragraph of your telegram under reference. However, Department desires that you repeat to Tokyo your telegram under reference with a request that Tokyo forward to you and to Department by telegram its views and recommendations.

2. Department assumes that if the procedure under contemplation is followed by the American oil interests and consular authorities similar action will be taken, with the approval of the British Embassy, by British oil interests and consular authorities.

3. You will of course realize that the Department is not in position to judge in advance whether the situation resulting from an oral discussion between Manchukuo officials and representatives of the Consulate General and American oil interests will warrant an advancing of a diplomatic claim. It is suggested that you review carefully enclosures to Department's mail instruction No. 1673 of June 3 [25] and your copies of Tokyo's despatches to Department in regard to this subject, particularly first paragraph, page 4, of Tokyo's despatch No. 1303 of May 15.[26]

HULL

893.6363 Manchuria/255 : Telegram

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

TOKYO, October 22, 1935—5 p.m.
[Received October 22—7 : 37 a.m.]

196. Reference Peiping's telegram to the Department, 64, October 15, 5 p. m.; and Department's reply thereto 28, October 17, 5 p. m. I perceive no objection to the suggestions contained in the second paragraph of Peiping's telegram although I am in some doubt as to the usefulness of having the Consul General at Mukden or a member of his staff present at the discussions between the American oil company's representatives and the Manchukuo authorities. Assuming that the British and American Consuls General will act in concert it might well be that they would prefer to make independent oral and informal inquiries at this juncture regarding the attitude or decision of Manchukuo officials in respect to the claims of the American

---

[25] Not printed; the enclosures referred to were memoranda of conversations between officials of the Division of Far Eastern Affairs, Department of State, and officials of various oil companies and with the British Ambassador on the subject of the oil monopoly in Manchuria.

[26] Not printed; this paragraph discussed the attitude of the oil companies and stated "that if they attempted to claim against the authorities in Manchuria without having enlisted the influence of the Japanese Government through the Embassies, they would have little or no chance of success and, moreover, would be going counter to their previous policy of avoiding direct dealings with the Manchurian authorities and endeavoring to maintain the whole question on a plane of international policy." (893.6363 Manchuria/212)

and British companies. I believe it desirable, however, that their course of action be left largely to the discretion of the Consuls General.

Repeated Peiping.

NEVILLE

893.6363 Manchuria/255 : Telegram

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

WASHINGTON, October 28, 1935—1 p.m.

42. Tokyo's 196, October 22, 5 p. m. Department in no way dissents from views expressed by Neville and expressly concurs in view contained in his last sentence.

HULL

894.6363/216a : Telegram

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

WASHINGTON, November 14, 1935—6 p. m.

176. Representatives of Standard-Vacuum called at Department on November 6 in regard to oil situation in Japan and stated that a conference was scheduled for that day between officials of the Japanese Foreign Office and Department of Commerce and Industry and representatives of foreign oil interests.

Did such conference take place and if so what were the results?

Please telegraph reply.

HULL

894.6363/217 : Telegram

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

TOKYO, November 15, 1935—5 p.m.
[Received November 15—11 a.m.]

211. Department's 176, November 14, 6 p. m.

1. The conference took place as scheduled for the purpose of discussing the telegram sent by the head offices of the foreign oil interests to their local representatives under date of October 29, stating that the foreign oil interests were relying on the Japanese officials to carry out the program embodied in the five-point memorandum of April 13, 1935.[27] This message was conveyed to the Japanese officials on November 2.

---

[27] *Ante*, p. 896.

2. Yoshino and Kurusu informed the local representatives that:

(*a*) The five-point memorandum represented what the officials hoped to be able to accomplish in order to meet the views of the foreign oil interests but did not constitute a promise.

(*b*) It having been found impossible to alter the stock holding requirements of the law a compensation plan has been developed and the enforcement of the storage provisions postponed.

(*c*) The 6 months' stock holding obligation however must be considered as fixed and beyond further negotiation.

(*d*) The issue is now definite and the oil companies must decide whether or not to continue trading in Japan under the present law and regulations.

3. Yoshino and Kurusu unofficially added that unusual consideration was being given the foreign oil companies in that they were being permitted to participate in a Japanese compensation plan and advised the foreign oil companies not to refuse the opportunity being offered of maintaining their established positions in the Japanese trade.

4. The above information was cabled to the oil companies by the local representatives on November 7.

5. The situation now appears to be that the Japanese Government prefers to have the foreign oil companies continue in business in Japan but is prepared to do without them if they do not wish to operate under existing conditions. It is not believed that this attitude can be considered entirely as a "bluff" on the part of the authorities.

6. Today the representatives of the foreign oil companies were called to the office of the Chief of the Mining Bureau of the Department of Commerce and Industry who requested that the decision of the foreign oil companies in regard to the storage requirements be conveyed to the Japanese authorities as soon as possible in order that the storage-compensation budget may be compiled. He stated emphatically that there would be no discrimination between foreign and Japanese companies in the allocation of storage compensation.

NEVILLE

894.6363/222 : Telegram

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

WASHINGTON, November 27, 1935—6 p.m.

184. Your 211, November 15, 5 p. m. British Ambassador called at Department today in regard to oil situation in Japan. He stated that, according to a telegram received by him from the British Foreign Office, the oil companies are at present engaged in negotiations with the Japanese authorities; that the British Foreign Office feels that the position of the oil companies in these negotiations might be strengthened if the British and the American Embassies at Tokyo

would, in continuance of the past practice of cooperation, make further representations to the Japanese Government; and that the objective which the British Foreign Office has in mind is to cause the Japanese authorities to revert to the program embodied in the five-point memorandum of last April.

Department desires that you report promptly by telegraph whether in your opinion further representations should be made at this stage and whether any useful purpose would be likely to be served by so doing. You should of course consult your British colleague and the representative in Japan of the Standard-Vacuum Oil Company.

In the event that you consider the making of further representations advisable, please indicate your views as to the form and substance of such representations.

HULL

894.6363/223 : Telegram

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

TOKYO, November 30, 1935—6 p. m.
[Received November 30—9 : 40 a. m.]

224. Department's 184, November 27, 6 p. m. After consultation and taking into consideration the growing interest in Japan in the increased price of gasoline caused by the stock keeping obligation and the interest exhibited in Japan in the New York conference of last October on the control of supplies of oil the American and British Embassies and the representatives of the American and British oil interests unanimously agreed that the present is an appropriate moment for further representations. It was also the unanimous opinion that a mere inquiry or request for reversion to the program of the five-point memorandum would avail little or nothing, however, and that the representations should be strengthened by some indication of the steps which will inevitably be taken by the oil companies if the more onerous provisions of the law and regulations are not modified. It was suggested that this reenforcement of the representations might take the form of definite statements to the effect that the foreign oil companies are seriously considering withdrawal from Japan or that they positively cannot, as a commercial proposition, agree to the carrying of 6 months' stocks. The nature and substance of such statements naturally will have to be determined by the head offices of the oil companies in New York and London.

The British Embassy is telegraphing its Foreign Office in similar sense.

NEVILLE

893.6363 Manchuria/264 : Telegram

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

PEIPING, December 6, 1935—7 p. m.
[Received December 7—7 a. m.]

205. Department's 42, October 28, 1 p. m., and Embassy's despatch No. 88 of November 14.[28] Ballantine reported in despatch November 18 that representative of Standard-Vacuum Oil Company stated that at an interview with officials of the Finance Department of the "Manchukuo" government on November 13 he was told that the government will not pay compensation for loss of business and will pay only for the purchase price of certain properties.

Ballantine reported November 28, 5 p. m., that he had received a request from the company for assistance in connection with the government's decision. Ballantine stated that the British Consul General had been instructed to make "friendly inquiry" of the "Manchukuo" authorities and would interview the Vice Minister of Foreign Affairs on December 4. The Embassy authorized Ballantine to join his British colleague in informal and oral inquiries.

Ballantine telegraphed December 5, noon, as follows:

"December 5, noon. Vice Minister of Foreign Affairs in an interview yesterday with British Consul General and myself did not indicate what his government's intention was in regard to the claims of the foreign oil companies, but promised to refer the question to Hoshino of the Finance Department upon the latter's return on a prospective absence of some days. He stated it to be his belief that his government was not in a position financially to meet claims of such magnitude, but that he knew that the Department of Finance was now endeavoring to appraise companies' physical properties to be taken over, and he offered to urge the Finance authorities to expedite this work, suggesting to us at the same time that further discussion be left in abeyance until appraisal was completed. We tried to make it clear the companies were not interested in semi-physical properties except as a part of a lump sum settlement to include compensation for loss of business as going concerns. Unless otherwise instructed I propose awaiting the next move from the Manchukuo authorities or any further requests from representatives of the American oil companies. Embassy informed."

Embassy approves Ballantine's proposed action.

JOHNSON

[28] Despatch not printed.

894.6363/223 : Telegram

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

WASHINGTON, December 11, 1935—6 p.m.

194. Reference your 224, November 30, 6 p. m. Department informed Standard-Vacuum on December 2 of contents of your telegram under reference. Standard-Vacuum by telephone message and letter December 9 informed us of procedures which they and their British colleagues in London had under discussion. Standard-Vacuum expressly asked for our comments or suggestions on one point, a point especially involving assistance by American Embassy. In course of giving our comment today, by telephone, we ascertained that Standard-Vacuum last night sent a tentative instruction to its representative in Japan. The upshot will probably be further discussion between the representatives in Japan of the two interests and further consultation between the respective interests and their respective embassies.

In the light of the above, Department wishes that you participate in discussion of any points which may be brought to your attention and wherein you deem participation by you appropriate but that you take no steps of approach to the Japanese Government or Japanese firms without first fully informing Department of developments up to the point where the interests ask Embassy [for] such assistance, and receipt by you of further instruction from Department.

We have informed Standard-Vacuum, New York, of the contents of this telegram, and they accept full responsibility for any misunderstanding that may have been occasioned by their telegram of yesterday to their representative in Japan.

HULL

894.6363/223 : Telegram

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

WASHINGTON, December 12, 1935—6 p. m.

196. Department's 194, December 11, 6 p. m. In continuation for your information.

Department in course of giving comment by telephone expressed the view that, if the companies wish to try to conclude a trade with the Japanese Government, governmental agencies, especially American, should not be associated with the idea or the action relating thereto; that we have no objection to an effort by the companies to take the matter up directly with Japanese commercial interests and through the latter with Japanese official agencies; that if the companies seek through the Embassies introductions to the Japanese military authorities, we could only instruct our Embassy to approach the Japanese

Foreign Office on the subject; that we doubted the advisability of company representatives expressing to Japanese agencies sympathy with the Japanese objective and of their saying to the Japanese that the heads of the companies here would be prepared to proceed to Japan again to carry negotiations to a conclusion. We intimated that our views were in line with those expressed in the Embassy's telegram 224, November 30, 6 p. m.

With Standard-Vacuum's assent, we have today conferred with other departments in regard to the companies' project of offering a process in trade; and it has been decided that we will take officially no position either in approval or disapproval thereof.

Standard-Vacuum has not furnished us a copy of its instructions to its representative in Japan or given us any further word.[29]

HULL

894.6363/228 : Telegram

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

TOKYO, December 13, 1935—6 p.m.
[Received December 13—9 : 25 a.m.]

240. Department's 194, December 11, 6 p. m.; and 196, December 12, 6 p. m.

1. The oil companies will send a letter tomorrow morning to the Vice Minister for Commerce and Industry with a copy for Kurusu stating definitely that "they cannot undertake any extra capital expenditure beyond that envisaged in the five-point memorandum" [30] and proceeding to offer to trade on some terms the hydrogenation process for a confirmation of the program of the five-point memorandum.

2. After having done this the companies will endeavor to interest the Mitsuis and possibly other Japanese interests in the proposition.

3. The local representatives of the companies hope that their reply to the Japanese Government can be supported by some sort of diplomatic representations. The British Ambassador states that he is prepared on the strength of instructions already received to discuss the situation informally with Hirota in the early part of next week. He proposes to state to Hirota that he had thought that the oil problem had been settled by the agreement reached last April; that he regrets that it appears that the problem at present is no nearer a solution than it was a year ago; that there is no political angle to the question but purely as a commercial proposition the oil companies cannot see their

---

[29] The Department's telegram No. 198, December 13, 11 a. m., reported receipt that morning "of those instructions and an amendment thereto of December 11." (894.6363/223)

[30] *Ante*, p. 896.

way clear to investing large sums in Japan to carry 6 months' stocks; that the oil companies are offering a constructive proposal by means of which the Japanese Government can assure itself of a steady supply of oil without imposing heavy storage requirements on the companies; and that the details of this proposal have been laid before the appropriate authorities.

4. I suggest that this Embassy be authorized to take early opportunity to call on the Minister or Vice Minister for Foreign Affairs expressing disappointment that a settlement could not be reached on the basis of the five-point memorandum; stating that the American oil interests find it impossible under the conditions imposed by the law to undertake the additional expenditure entailed by storing 6 months' stocks; and requesting the good offices of the Foreign Office in obtaining a reconsideration of the matter in the light of the companies' position.

NEVILLE

894.6363/228 : Telegram

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

WASHINGTON, December 13, 1935—7 p.m.

199. Your 240, December 13, 6 p. m., paragraph 4. Assuming that your proposed action will be adequately coordinated as to substance and timing with indicated action of the British Ambassador, the authorization which you suggest is given. You should guard against the Japanese authorities gaining the impression that the American Government is in any way associated with the proposal which the oil companies have in contemplation. If you make to those authorities any reference to the proposal, you should avoid any mention of the express substance thereof and should make clear the nonassociation of your Government therewith.

HULL

893.6363 Manchuria/267 : Telegram

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

PEIPING, December 16, 1935—5 p.m.
[Received December 16—3 : 50 p.m.]

231. Embassy's 205, December 6, 7 p. m. Following telegram has been received from the Consul General at Mukden:

"December 15, noon. I have received the following communication dated December 13th from Minister for Foreign Affairs:

'With regard to the matter of purchasing the equipments of the three oil companies, I have discussed the subject with Mr. Hoshino and we are agreed in

the opinion that this Government is not in the position to recognize the principle of compensating the losses incurred by your oil concerns as a result of the enforcement of our national policy, although the Finance Department should endeavor to complete, as soon as possible, the investigations as to the value of the equipments and be prepared to purchase the said equipment for a reasonable price in accordance with the laws and regulations.

When the negotiation reaches a stage which requires my good offices, I shall be ready to do my best to settle the matter in a manner satisfactory to both parties.

I am, et cetera, T. Ohashi.'

Embassy at Tokyo informed."

JOHNSON

894.6363/234 : Telegram

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

TOKYO, December 19, 1935—3 p.m.
[Received December 19—9 : 40 a.m.]

246. Department's 199, December 13, 7 p. m. Oil.

1. In the course of a conversation on other matters yesterday the Chief of the Commercial Bureau of the Foreign Office on his own initiative asked Neville whether the letter of the oil companies meant that the companies intended to defy the Japanese Government. Neville replied that so far as he knew it meant that they could not comply with the law as commercial proposition and would be unable to do business in Japan under its terms. Kurusu said that this decision had seriously disturbed the Department of Commerce and Industry and that something would have to be done about it because if the oil companies were to withdraw other arrangements would have to be made to obtain necessary oil supplies in Japan. He said that it was his intention to speak to the local Standard and Shell managers before anything further developed.

2. The British Ambassador on December 17, brought up the oil question with the Minister for Foreign Affairs in the course of a conversation upon other matters along the lines indicated in Embassy's 240 and added that it was known that the military were responsible for the present law but that it was unreasonable to expect the companies to bear the expense of storing oil uneconomically for military requirements. The Ambassador said that he was not speaking under instructions. The Minister for Foreign Affairs replied that the question would probably be aired in the Diet because of the postponement of the enforcement of the law until July 1st and that he hoped that some solution might be found either before or when explanations were given.

3. In view of the fact that the British Ambassador has raised the oil question in the course of a conversation only incidentally, and also in view of the remarks of the Chief of Commercial Bureau which indicates that the Government is giving the matter serious attention,

I do not think that anything is to be gained by my seeking an interview with the Minister for Foreign Affairs for the express purpose of discussing the question at this juncture. Unless otherwise instructed I shall therefore take occasion to bring up the matter when I next see the Minister or the Vice Minister on some other subject.

GREW

893.6363 Manchuria/271 : Telegram

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

TOKYO, December 21, 1935—11 a.m.
[Received December 21—1 : 37 a.m.]

249. Peiping's 231, December 16, 5 p. m. to the Department. Manchurian Oil Monopoly.

1. The local representatives of the oil companies are of the opinion that the letter from Ohashi to Ballantine definitely shows that the companies cannot expect anything better than an unsatisfactory partial settlement based on the physical value of and ignoring the principle of compensation for loss of business. They therefore believe that the companies should proceed to the filing of claims, possibly through diplomatic channels, as envisaged in the Departments 77 [*67*] April 24, 7 p. m., paragraph 2. The local representatives have telegraphed in the above sense to their head offices and have suggested that the head offices consult with their respective governmental authorities.

Repeated to Peiping.

GREW

894.6363/235 : Telegram

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

TOKYO, December 26, 1935—2 p.m.
[Received December 26—5 : 32 a.m.]

251. Embassy's 246, December 19, 3 p. m. Oil.

1. The local representatives of the Standard and Shell interests on December 23 received from the Ministry of Commerce and Industry a verbal reply to their letters of December 14 (Embassy's 240, December 13, 6 p. m.). The reply stated that the stock keeping obligation cannot be changed; that the five-point memorandum was the result of private conversations and is not binding; that penalties and administrative measures, such as reduction of quotas, will result from noncompliance with the rigid provisions of the law; and that the matter of liquefaction of coal has no connection with the enforce-

ment of the stock keeping obligation. The above information in greater detail has been telegraphed to the head offices of the oil interests.

2. The local representatives of the oil interests will discuss the above reply with Kurusu tomorrow. I shall telegraph any important developments which may emerge from the discussion.

GREW

894.6363/236 : Telegram

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

TOKYO, December 28, 1935—noon.
[Received December 28—7 : 30 a.m.]

253. Embassy's 251, December 26, 2 p. m., second paragraph.

1. In his talk yesterday with the local representatives of the oil companies Kurusu expressed his desire to overcome the impasse created by the uncompromising attitudes of both sides in regard to the oil storage obligation and stated that he would explore the possibility of securing governmental guarantees of quotas and prices sufficient to warrant the companies in storing 6 months' stocks of oil. Owing to the approaching holidays, however, he could do nothing until after January 7. He also suggested as a practical solution the utilization by the foreign companies of Japanese capital for internal distribution and stock holding.

2. Local Standard representative has telegraphed details of the conversation to New York. I think it would be helpful to the Department to ask to see a copy of it.

GREW

893.6363 Manchuria/271 : Telegram

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

WASHINGTON, December 30, 1935—4 p. m.

204. Your 249, December 21, 11 a. m., and previous. Department has informed New York office of Standard-Vacuum that it is inclined to agree that, in view of Ohashi's letter to Ballantine, the company has exhausted its recourse to local remedies and that, if the company believes that it has legal grounds for diplomatic claim against the Japanese Government, Department is prepared, if company so desires, to receive and consider such claim for possible future action.

HULL

TRADE RELATIONS BETWEEN THE UNITED STATES AND JAPAN; VOLUNTARY RESTRICTION OF EXPORTS TO THE UNITED STATES AND THE PHILIPPINE ISLANDS BY THE JAPANESE[31]

610.9431/6

Memorandum by the Commercial Attaché in Japan (Williams) of a Conversation With the Chief of the Commercial Bureau, Japanese Foreign Office (Kurusu)[32]

[Tokyo,] February 15, 1935.

On February 15th at 4:30 p. m. at Mr. Kurusu's invitation, I called on him at the Foreign Office. He stated that he wished to discuss with me the matter of trade reconciliation he had mentioned to Mr. Neville[33] last week. The situation worrying the Japanese at the moment centers in South America, particularly in Colombia, Peru, and Cuba, all of which have recently abrogated their commercial treaties with Japan. The balance of visible trade is overwhelmingly in favor of Japan and these countries threatened to further seriously restrict the imports of Japanese goods unless Japan increases her purchases and thereby decreases the unfavorable trade balance. The difficulty arises from the fact that these countries have little to offer on an exchange basis. The Japanese, according to Mr. Kurusu, are perfectly willing to buy goods they can consume, but have no appreciable market for cigars from Cuba or bananas from Colombia. They have made special efforts to increase their imports from these and other South American countries, particularly cotton from Brazil and wool from the Argentine, but there is no possibility of a balance of trade even being approached.

Japan's unfavorable balance of visible trade with the United States in 1934 was Yen 370,000,000. Kurusu believes and hopes that some way can be found to utilize this balance in counteracting the unfavorable balances prevailing with the South American countries. He quoted Secretary of State Hull as stating in one of his public utterances that he was definitely in favor of trilateral trade agreements. Kurusu feels that the situation as explained above offers an excellent opportunity to put Mr. Hull's policy into actual operation. He has sent two cables to Ambassador Saito requesting him to see Mr. Hull and find out just what he had in mind when he expounded his ideas about trilateral and bilateral trade agreements, and furthermore sound out the State Department officials as to the feasibility of his proposal. Kurusu admits that he has no definite or concrete plans to suggest as

---

[31] For previous correspondence, see *Foreign Relations*, 1934, vol. III, pp. 799 ff.

[32] Copy transmitted to the Department by the Ambassador in Japan in his despatch No. 1177, February 20; received March 11.

[33] Edwin L. Neville, Counselor of Embassy in Japan.

the details of such a scheme would have to be worked out by American and Japanese businessmen and bankers, but he sincerely believes that the inauguration of such a three-cornered trade agreement would not only prove mutually beneficial, but would serve as an excellent example to the world of one means of unravelling the present trade and economic tangle.

I could not at the moment make any concrete suggestion other than that the matter might come within the scope of the Second Import and Export Bank. To date Mr. Kurusu has had no reply from Ambassador Saito. Mr. Kashiwagi, Manager of the Tokyo Branch of the Yokohama Specie Bank, who is now in Europe, visited the United States a short time ago and he was requested by Mr. Kurusu to sound out some of the American bankers on Kurusu's idea. So far he has made no report to Kurusu.

Our conversation drifted to the visit of the American Economic Mission to Japan and China.[34] Kurusu's feelings, unexpressed but visible, are the same as the Japanese members of the Japan-America Trade Council, namely, that Japan will extend a most cordial welcome to the Mission, show them everything, (which usually means little), and entertain them lavishly. I have had the idea right along that underneath the surface there is a feeling of resentment against the manner in which the proposal first originated. Kurusu told me that "such a Mission was first suggested in the American Club in Shanghai and that Americans in China and Chinese want the Mission to come out as they believe it will be a forerunner of large American investments and probably loans in China". I thoroughly disagreed with that statement and pointed out to him that I did not think there was the slightest chance of any American cotton, wheat, machinery or other materials being sold to national or provincial governments of China on credit or loans extended by American businessmen. Furthermore I told him that we naturally want all the business we can possibly get in China, but we want it on a sound financial basis. He also mentioned the political significance of the Mission's visit to China, stating that there would undoubtedly be repercussions in Japan but did not think these would be serious. He also stated that he understood that Dr. Hornbeck, of the State Department, had given his approval of the Mission to China.[35] I assured him that the Mission, so far as I knew, had no political significance whatsoever and that the matter was, according to my information, first brought up in the last Annual Meeting of the Foreign Trade Council in New York in November.

(In my opinion it would have been a much wiser move on the part

---

[34] See also pp. 526 ff. and pp. 821 ff.

[35] Notation by Mr. Hornbeck, Chief of the Division of Far Eastern Affairs: "The Dep't, in reply to a formal inquiry, stated that it perceived no objection."

of the American businessmen to have first approached this matter through the State Department and the Embassy here and the Legation in China so that the respective Governments would have had full knowledge of the proposed Mission or Missions, rather than to have the incomplete and somewhat conflicting information come through newspaper reports. I believe the Japanese feel that an attempt is being made to "put something over on them".)

Mr. Kurusu and I then discussed trade between Japan and Manchuria, with particular reference to capital investment by Japan, increased exports, and whether the enormous volume of Japanese goods going into that territory represented a healthy flow of trade. He pointed out that what is termed "capital investments" does not necessarily mean that so much actual capital has been exported but rather that credit for that amount has been established but still remains in Japanese hands. He seemed to have some doubt regarding the soundness of the heavy export movement to Manchuria, but indicated that a large proportion of goods was being utilized in building and construction work, supplies for the Army, and the South Manchuria Railway.

Some time ago I asked Kurusu for a list of restrictive trade measures that had been imposed against Japanese goods abroad. He was kind enough to give me a complete volume in Japanese prepared by his Department for use in answering interpellations in the Diet on the restriction of Japanese trade abroad.

F[RANK] S. W[ILLIAMS]

611.0031/1387

Memorandum by the Secretary of State

[WASHINGTON, February 19, 1935.]

The Japanese Ambassador called and handed to me the attached memorandum [36] pertaining mainly to Japanese trade and supposed trade rights in South and Central America. After the Ambassador had read the memorandum, I stated to him that his Government was entirely in error in its complaints and in all of the implications of the memorandum as they related to any purpose remotely on the part of the United States to interfere with Japanese trade anywhere, much less in South and Central America. I stated that, since the London Conference,[37] this Government has been supporting a broad, comprehensive economic program for the restoration of international finance and commerce to a nominal volume; that this program was unani-

---

[36] *Infra.*

[37] For correspondence concerning the London Economic Conference, see *Foreign Relations*, 1933, vol. I, pp. 452 ff.

mously adopted at the Montevideo Conference;[38] that this Government is supporting it now and is not interested in such narrow and bartering trade methods as are being conducted by most countries today with disastrous results to international trade. I said that we in the State Department had never mentioned Japan, much less discussed the Japanese trade policies and interests, with any government in Latin America or anywhere else while discussing trade agreements with them; that we never even thought of Japan any more than other remote countries.

I then pointed out to the Japanese Ambassador just what the Montevideo economic program meant in the way of a broad, liberal and comprehensive program for economic recovery that all nations could consistently support. I said that it was based primarily upon the doctrine of equality of commercial and industrial rights and opportunities among nations in accordance with the favored-nation principle; that this Government recognized that the world is going from bad to worse economically, under the narrow, short-sighted bartering and bargaining trade methods and devices that are being practiced everywhere; that Europe, with Germany a special example, is keeping international trade there pressed down to the lowest level of the panic solely through the operation of these narrow bilateral methods which exclude that vast volume of international trade which is carried on through triangular, four-cornered and multilateral methods. I said that this Government is not interested in the narrow, bilateral method by itself with discriminations as the governing principle, but that it is paramountly concerned in carrying forward the Montevideo program which will bring back some twenty-five billions of dollars of international trade in addition to the almost nominal amount that exists today under the narrow methods of trading which include retaliation more than reciprocity.

I said that it is in these circumstances that my Government has a right to appeal to the Government of Japan and to other governments, instead of complaining upon the mistaken theory that we are in any remote sense interfering with Japanese trade in Latin America, to get in behind the Montevideo program and actively conduct educational activities among the important nations in its support; that in no other way can my country or his country or other countries of the world hope to get back anything like a satisfactory volume of international trade that would be at all certain or stable. I stated that, with due respect, it was really humorous for his Government to intimate that the United States is interfering with Japanese trade opportunities in Latin America and to cite a *New York Times* report about the American textile manufacturers' seeking successful trade

[38] See *Foreign Relations*, 1933, vol. IV, pp. 1 ff.

opportunities in Latin America through the United States Government, when the unvarnished truth is that my Government is both preaching and practicing the unconditional favored-nation doctrine to the fullest extent possible in the circumstances, which is calculated to give all countries equality of trade opportunities not only in Latin America but in every part of the world. I again urged the Ambassador to urge his country to get in and assist in this vast undertaking.

I then pointed to our recent trade agreement with Brazil,[39] in which both this country and Brazil was generalizing to all other countries in the world, including Japan, the tariff and trade concessions they were extending to each other, and I said that these benefits were not costing Japan one red cent; that only in the case of Cuba, where very special relationships exist, is there any preferential trade relation on the part of my Government and another, and that even in the case of Cuba we had not gone out of our way to assist any particular industry in this country to get any undue advantage over a similar industry elsewhere.

In conclusion I said that the Japanese Government has got completely reversed the objects and purposes of the Government of the United States with respect to its commercial policy; that I was glad thus to correct the entirely erroneous view of the Japanese Government as contained in the Ambassador's memorandum; that the one paramount purpose of the United States Government is to restore the operation of triangular and multilateral trade methods and to oppose any and all attempts to limit trade to the narrow, bilateral bargaining and bartering devices; that this, upon the theory that no country of any importance will be benefited materially by international trade unless and until the broad program adopted at Montevideo with the unconditional favored-nation doctrine as its corner stone, shall be carried into effect by the important countries of the world, including Japan; and I again appealed to him to urge his country to get in and cooperate in support of the Montevideo program. I fully explained that we were moving as rapidly as public sentiment would permit and that, at best, our progress was very gradual; that it could be much improved if other countries would awaken and catch step with mine; that we cannot hope to have anything like satisfactory economic relationships between nations under the existing narrow, retaliatory methods of trading. The Ambassador seemed to be a little disillusioned and made no attempt to controvert or to argue any statement I made. I stated that I would be glad to send him a memorandum if he desired, and he expressed the desire that I should do so.

C[ORDELL] H[ULL]

---

[39] Signed at Washington, February 2, 1935, vol. IV, p. 300.

SUPPLEMENT

The Ambassador referred to the obstruction, to a more or less extent, by this Government of certain Japanese imports, such as matches, pencils, certain rubber goods, etc. I stated to him that we were seeking to advance the Montevideo economic program and to induce other countries to do so simultaneously; that this program contemplated rates that would not permit domestic price monopoly on the one hand or unreasonable or excessive imports on the other; that until we can proceed further with the general program of more liberal commercial policy and get it adjusted to our country and also educate and organize sufficient public sentiment behind to support and sustain it, we naturally would not be supported by public sentiment if we should allow an unreasonable and excessive amount of imports to come in without any disposition or steps to adjust the tariff rates to a reasonably competitive basis so that only a reasonable amount of such imports could be brought in. I said that this is a matter that is still ahead and that in the meantime we have requested the Government of Japan to cooperate by a gentlemen's agreement in the manner and to the extent that these excessive imports have been dealt with.

C[ORDELL] H[ULL]

611.0031/1387

The Japanese Embassy to the Department of State [40]

MEMORANDUM

1. During the year 1934, Japanese exports, the major portion of which was represented by cotton textiles to South and Central American countries, aggregated 104,000,000 yen. While thus the importance of those markets to Japan is increasing, there has occurred a trend in several countries in the area to limit the importation of Japanese goods or to abrogate commercial treaties with Japan for the purpose of attaining trade balance, as in the case of Peru, Colombia and Cuba.

2. Such policies of South and Central American countries are accounted for in view of the prevailing economic difficulties the world over, and the necessity of protecting the currency systems, the exchange rates, etc., of the respective countries. And the Japanese Government is endeavoring to meet the wishes of those countries in so far as the circumstance permits. It is, in the meantime, thought possible that such attitudes of South and Central American countries toward Japanese imports have been influenced by the reciprocal agree-

[40] Handed to the Secretary of State by the Japanese Ambassador, February 19.

ments with the United States or by the activities of American exporters. (The annexed newspaper report [41] tends to strengthen such surmises.)

3. It is well understood that the reciprocal policy now adopted by the United States Government has not as its object an attack upon the trade of other countries. But, in point of fact, if Japanese exportation to South and Central American countries, notably of cotton textiles which constitute the main portion of it, were to become smaller, the natural result would be a diminution of the exportation of American raw cotton to Japan. Furthermore, a lessening in exportation of Japanese goods would, as a basic fact, bring about the impairment of the purchasing power of Japan and the consequent depreciation of the exchange value of the yen, which would inevitably entail prejudicial effects upon the export trade of the United States.

4. It is the firm conviction of the Japanese Government that the attempt to balance the trade between any two given countries without any regard to the practical possibilities or difficulties would eventually cause the international trade to fall down and make the world's economic rehabilitation more than ever difficult of attainment. But, in view of the actual situation in which Japan is receiving insistent demands from countries with unfavorable balances of trade vis-à-vis Japan to arrange for an equilibrium of importation and exportation, Japan is placed in a position to request of the countries that enjoy favorable balances of trade vis-à-vis Japan to effect an increase in the importation of Japanese goods as a measure to meet the emergency of the case. With this object in view Japan is actually carrying on negotiations with Australia, Canada and Germany, severally.

5. In the circumstances and in view of the present trend of the Japanese-American trade, Japan is in a position to request this country for an increase of Japanese exportation to the United States. Complaints are therefore expressed in various quarters as to the movements in the United States to stop or limit the importation to this country of such goods as rubber goods, electrical appliances, pencils, matches, fabrics and rugs of cotton, silk and rayon and so forth. Taking into consideration the present condition of the commerce between our two countries, the American trade relations with South and Central American countries and the financial position and influence of the United States, the Japanese Government is therefore wondering, as a means of coping with the situation, if there cannot be contrived some means through which the Japanese-American trade and the Japanese-South-and-Central-American trade could be adjusted on the principle of the triangular trade.

---

[41] Not reprinted; it was a news item from the *New York Times* of September 9, 1934.

6. It is confidently believed that the United States Government entertains the same desire as the Japanese Government to bring even closer the economic relations and to increase friendship and cordiality between our two countries, as evidenced by repeated expressions of opinions by the United States Department of State on the subject of reciprocity and three-cornered adjustment. The Japanese Government will therefore appreciate it greatly if the United States Government will kindly disclose its opinion on the point raised in the present memorandum.

611.0031/1387

The Department of State to the Japanese Embassy

MEMORANDUM

The memorandum given by the Ambassador to the Secretary of State on February 19, 1935, which touched upon various aspects of Japanese-American trade relations has been given careful consideration, and the following observations are offered in regard to the points therein raised:

(1) This Government gladly reiterates that it shares fully the desire of the Japanese Government set forth in the memorandum to bring even closer the economic relations and to increase friendship and cordiality between our two countries. It believes that the principles upon which it is conducting its international commercial policies should serve that end by helping to initiate governmental action on the part of many countries which will permit a greater interchange of goods than at present.

(2) The negotiations in which it is engaged and those which it has in prospect are aimed to serve that purpose. To the greatest extent compatible with the purpose of developing trade and the reasonable protection of its own industry, the American Government plans to generalize such concessions as it may make in these agreements, except to countries whose treatment of American trade may be deemed discriminatory and inequitable.

Whether or not any foreign government making concessions sought by the United States likewise extends these concessions to other countries is of course a matter for determination by that government. However, this occasion may be taken to state unequivocally that except in the case of Cuba, whose trade relations with this country have long been recognized as of a distinct order, this Government is in no way seeking and in no way encouraging exclusive or preferential concessions. On the contrary, it has been using every opportunity to try to combat the tendencies to which the Japanese Government calls attention.

(3) Consonant with this policy it has abstained from various trade arrangements which other governments have sought to make with it which provided for the direct interchange of goods through ways which, while not perhaps violating the letter of treaties, would actually create somewhat preferential situations. In its avoidance of such agreements and of the various types of trade restrictions that have been adopted by many of the large trading countries of the world, it has sought to give evidence of its sincerity of purpose and its hope that other governments would likewise abstain from these practices.

(4) It agrees with the observations of the Japanese Government in regard to the maintenance of triangular trade. The advantages of such trade are apparent in the circle of commerce between Japan, the United States, and South and Central America, as described in the memorandum. Similar benefits are seen in that triangular trade which exists between Japan, the United States, and various countries in the Pacific area, as, for example, British Malaya and Netherlands India, wherein American purchases create a fund of exchange which helps to pay for purchases from other countries, including Japan.

This triangular trade rests on arrangements made by the traders themselves within the circle of trade opportunity which American policy is calculated to increase and not decrease. It is not perceived how this triangular movement of trade could be organized by governmental agreement in conformity with the suggestion made at the end of the paragraph numbered five of the Japanese memorandum. It is the judgment of the American Government that any such attempt would probably have to include all the areas in which Japanese and American interests are affected by indirect trade relations and would involve what appear to be virtually insuperable difficulties of method.

(5) It is the wish of the United States Government to lessen rather than to increase restrictions on the entry of foreign goods to the American markets. But it will of course be realized that this Government cannot be unmindful of the serious state of depression still prevalent in American industry nor of the effects upon the domestic recovery program of large and sudden increases in the imports of specific foreign commodities. It has occasionally been found necessary therefore to take steps under the provisions of existing legislation to seek certain safeguards against the destructive impact of suddenly increased imports. The Japanese memorandum cites certain instances of efforts to invoke such safeguards. The fact that action has been taken in but a few instances of relatively slight importance indicates the will and strong wish of this Government not to put any new obstacles in the way of trade between our two countries but rather the contrary.

In these few instances this Government has sought to cooperate with the Japanese Government in informal voluntary action instead

of resorting to formal restrictive action under legislation; and the limitations proposed have been designed to stabilize imports from Japan and not to reduce them.

(6) In all matters affecting the trade between the two countries this Government will be fully disposed at all times to seek a mutually beneficial solution by thorough and candid discussion.

WASHINGTON, March 11, 1935.

600.9417/67

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

No. 1206 TOKYO, March 20, 1935.
[Received April 8.]

SIR: There seems to be a widely held impression that Japanese export trade at the present time represents an export of capital, which may ultimately bring about a financial catastrophe of the first magnitude. The idea is, apparently, that Japanese goods are being sold abroad at less than the cost of production; that Japanese steamship lines are all so heavily subsidized that they can afford to carry Japanese products for practically nothing; and that in general Japanese business is so closely organized and is so determined to invade foreign markets that it will export at a loss. The assumption is that the Government in some way taxes the public or issues bonds to reimburse the exporter.

The fact is that the Japanese are conducting their foreign trade at a profit. Their textile, rayon and heavy industries are earning and declaring large dividends, besides making adequate provision for depreciation and building up reserves; their shipbuilding activities are operating at a profit, and in the face of the general depression, their carrying trade is able to show an operating profit. The same remark might be made of a number of other lines of activity. Political and industrial calculations based on the assumption that the Japanese are confronted with mounting deficits because of their present economic activities are complete misapprehensions. The Japanese are making money selling their products at present rates. They produce fair quality articles at cheap prices, they are proud of their ability to do so and intend to continue the practice. There is no way of stopping them, because there is a world demand for their products which appeal to people of limited income.

It is true that public finance in Japan shows a deficit, due largely to elaborate military and naval expenditures which will absorb nearly half of the budget of Yen 2,193,414,000 for 1935–36. It may be said, however, that deficits are not confined to Japan, and compared to the figures of other countries, the current year's estimated deficit of Yen

950,000,000 to Yen 980,000,000 is not alarming—Japan is merely following the fashion. The money has nearly all been spent in Japan, and the demands of the military for Japanese-made products have had the effect of stimulating Japanese industry; factories have been built and industrial processes modernized on a large scale. The total national debt stood at Yen 9,160,166,000 at the end of 1934, less than Yen 1,500,000,000 of which represents foreign loans, and much of this has been purchased by Japanese subjects in recent years.

Internally, bank and savings deposits have increased during the year and there is no evidence that the public is unable to absorb further government obligations. Industrial concerns have been able to adjust many of their old debts because of increased earnings. In so far as this has been done out of work done on government account it may be said to be a transfer from a private to a public debt. All things considered, however, the domestic financial situation appears to be in better shape than it was a year ago. Taking the international or exchange value of the Yen as its true value, Japan has practically 100% gold coverage, so the nation has little to fear in regard to its currency control.

The expense attendant upon Japan's Manchurian venture is the weak spot in the local economic situation. This is considered so important that the Minister of Finance warned against it in a public statement. Exports to Manchuria amounted to over 400 million Yen in 1934, against imports of 131 million. There seems no doubt that this heavy excess of exports to a country which is poor and unable to pay, represents capital export to a very great extent. Much of it, however, is capital for investment on which the Japanese hope to obtain a return at a later date. It is not money completely lost, although the return is uncertain.

Another feature of Japanese life which causes uneasiness is the agricultural situation. There is much distress and discontent in the rural districts. It would be a mistake to consider it a new phenomenon, although there have been a number of natural calamities this year which have aggravated the miserable conditions under which cultivators of marginal land in Japan have existed for generations. Recent years have seen a decided improvement in the standard of living in Japan and the condition of the rural population has become a social even more than an economic problem.

In conclusion it may be said that so far as can be seen at present, Japan is prospering economically. This wealth is being spent by the public on armies and navies and on a politically ambitious project in Manchuria, the returns from which are yet to be seen. So long as Japanese export continues, it would seem that the country can continue its present course without too much difficulty. There is moreover every indication that Japanese foreign trade has a solid basis

and that exporters are supplying profitably a demand for cheap goods; this situation appears to be a permanent feature of international trade, and is not to be exorcised or dismissed with assumptions of "capital export".

Reference, Annual Report of Commercial Attaché, Tokyo, for 1934.[42]

Respectfully yours, JOSEPH C. GREW

611.9431/75

Memorandum by the Under Secretary of State (Phillips) of a Conversation With the Japanese Ambassador (Saito)

[WASHINGTON,] March 27, 1935.

During his call this afternoon the Ambassador mentioned the efforts which were being made in this country to exclude or, at least, to raise the tariff barriers against the importation of Japanese cotton textile goods. The Ambassador stated that if this Government found itself obligated to take drastic steps against such importation, the Japanese Government would be placed in an exceedingly difficult position politically. He mentioned that the Japanese adverse trade balance amounted to 375,000,000 yen; that the sale of textile goods made it possible for Japan to buy raw cotton from this country; he also mentioned the gentleman's agreement which had been concluded with respect to pencils and rag rugs[43] and that the importation into this country of various other articles had been regulated and limited by the Japanese merchants themselves—some of these items were porcelain ware, frozen tuna fish, canned tuna fish, matches, etc. He mentioned these items, he said, in order to show that Japan was not trying to compete to the disadvantage of this country and had gone far towards meeting the wishes of the various American industries concerned. WILLIAM PHILLIPS

611B.9417/21

Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs

[WASHINGTON,] April 11, 1935.

Conversation: Mr. Hirosi Saito, the Japanese Ambassador;
Mr. Sayre;[44]
Mr. Dooman.

Mr. Sayre said that he had invited the Japanese Ambassador to call on him, as he wished to speak frankly in regard to certain prob-

[42] Not found in Department files.
[43] See memorandum of April 2, 1934, *Foreign Relations*, 1934, vol. III, p. 804.
[44] Assistant Secretary of State.

lems created by competition offered by Japanese goods. Mr. Sayre recalled that last year the Japanese Ambassador and the Chargé d'Affaires had stated that the Japanese Government would be appreciative if its attention were called to disturbances in American markets by Japanese competition, in order that the Japanese Government by voluntary action might ameliorate or otherwise satisfactorily modify the conditions complained of, and thus make unnecessary the imposition by the American Government of restrictive measures. Conformably to that suggestion, Mr. Sayre proposed that there be held between the Department and the Japanese Embassy a frank exchange of views as between friends. The Japanese Ambassador indicated assent.

Mr. Sayre said that there were certain focal points of difficulty, and that if attention could be given at this early stage to these focal points, there would be no reasonable basis for agitation. The first of these focal points was the imports into the United States of cotton textiles from Japan. Mr. Sayre said that the quantities involved were not substantial, but that there had been during the past two or three months a sharp increase in quantity, which increase caused American manufacturers much alarm. In short, it was not the quantity imported from Japan which was the principal cause of alarm but the rate at which imports were increasing.

Mr. Sayre supposed that the Japanese Ambassador had noticed the publicity given by certain individuals to recent increases in imports of cotton textiles into the Philippine Islands from Japan. He said that there had been initiated last year a proposal that the Philippine Legislature place a heavy duty on imports of cotton textiles from Japan; that the Department had, for various reasons, recommended that such action be not taken; but that, however, certain Congressmen had been active in criticizing the Department; and that it was now feared that, unless some remedial action were taken by Japan, the resulting political pressure might become unmanageable.

Mr. Sayre said that another focal point was the imports of pottery from Japan. He assumed that the Japanese Ambassador was aware that an investigation by the Tariff Commission had been ordered under Section 3 (*e*) of the National Recovery Act.[45] The Tariff Commission might find that the circumstances did not warrant the taking of action under the clause mentioned of the Act, but another investigation had been ordered under Section 336 of the Tariff Act[46] to determine the difference in the costs of manufacture in the United States and in Japan, and he feared that as a result of the second investigation the

[45] Approved June 16, 1933; 48 Stat. 195, 196.
[46] Approved June 17, 1930; 46 Stat. 590, 701.

Tariff Commission might have to recommend the taking of some action. He recalled that the Tariff Commission had ascertained that the Japanese Government had voluntarily taken action to raise the export prices of Japanese pottery, and it was his thought that it might be possible for the Japanese Government to take suitable measures which would make unnecessary the taking of action by the United States on the basis of probable findings by the Tariff Commission.

Mr. Sayre said that still another focal point involved a small amount, but that it was a matter which had engendered considerable heat and would offer a basis for political agitation. He referred particularly to the imports from Japan of sun goggles. The total amount imported was not large, but in this case, as in others, there had been a sudden flood of goods from Japan which had greatly alarmed American manufacturers.

Mr. Sayre wished to impress upon the Japanese Ambassador that it was not the desire of the American Government to place hindrances in the way of the development by Japan of a market in the United States for its products; as the Japanese Ambassador well knew, the American Government is sparing no effort to remove barriers to international trade; however, there had developed a situation which should be adjusted, if possible, by cooperation with the Japanese Government, in order that there might be obviated the necessity of resort to measures which would have unfortunate effects upon popular feeling. The adjustments proposed, Mr. Sayre said, were purely of a temporary character, and he hoped that improvements in conditions in all parts of the world would soon make them unnecessary.

The Japanese Ambassador expressed his appreciation of the spirit with which he had been approached by Mr. Sayre, and he confidently expected that the Japanese Government would respond favorably to the invitation to adjust commercial difficulties through friendly discussion and cooperation. He said that he would report the substance of the conversation to his Government, but that he would be in position to enter into discussions without awaiting a reply from Tokyo. To that end he would be glad to see Mr. Sayre at any time or instruct his subordinate officers to call on Mr. Dooman.

The conversation ended with an exchange of amenities.

611B.9417/22

Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs of a Conversation With the Counselor of the Japanese Embassy (Fujii)

[WASHINGTON,] April 12, 1935.

Mr. Fujii called this afternoon at my request. I referred to the conversations which the Japanese Ambassador had yesterday with the

Secretary [47] and with Mr. Assistant Secretary Sayre. Mr. Fujii said that the Ambassador had informed him of the substance of those conversations. I then said that it was my purpose to go over with Mr. Fujii substantially the same ground that had been covered in yesterday's conversation between the Ambassador and Mr. Sayre, but that in addition I wished to go into certain matters in somewhat more detail.

Generally speaking disturbances in market conditions were due more to the sudden influx of Japanese goods and to the wide margin in prices between American and Japanese goods than to the quantity imported from Japan. I referred in this connection to the figures of imports of sun goggles, pointing out that in 1931 only 48 gross of sun goggles were imported into the United States from Japan whereas in 1933 the imports amounted to 8,370 gross and approximately 20,000 gross in 1934. While this was not a very large figure, the fact that the rate of increase had been very sharp and the fact that there was a very large differential in price between Japanese goods and American goods had caused American manufacturers great alarm.

I also said that it was not the desire of the American Government to refuse to Japanese manufacturers a share in the American market; that, however, it was not believed that the opportunistic methods of certain Japanese manufacturers made possible the development of a steady market for their goods in this country; and that a sudden flood of Japanese goods into the United States not only tended to alarm American manufacturers but to create an opportunity for agitators to exaggerate the importance of Japanese competition.

Mr. Fujii remarked that he was not an economist and knew very little about commercial matters, but that he could very readily see that the methods followed by Japanese exporters of certain lines of goods might well create resentment in the United States.

There were, I continued, two matters in regard to which I wished to put forward suggestions. The first suggestion, one of considerable importance, was the question of Japanese exports of cotton textiles to the Philippine Islands. I invited Mr. Fujii to examine the figures of imports of cotton textiles into the Philippine Islands (Table I of the memorandum, dated April 11, 1935, of the United States Tariff Commission—attached [48]). I invited him also to note the manner in which the Japanese share of the trade had increased, and how the American share had correspondingly decreased. It was not our desire, I said, to exclude the Japanese from this trade, but at the same time we could not readily see the American share reduced to

[47] No memorandum of Secretary's conversation found in Department files.
[48] Not printed.

negligible figures. It was our thought that we could decide upon some arrangement which would secure to both countries an equitable participation in the trade. Mr. Fujii said that, speaking entirely for himself, he was very much gratified by the manner in which we had approached this problem, and he felt certain that his Government would respond in a similar spirit.

In regard to sun goggles, I said that we did not wish to deprive the Japanese manufacturers of a share in the American market in this commodity, and it was our thought that the Japanese Government might restrict annual exports to a maximum of 15,000 gross. In view of the large amounts that had been exported toward the end of last year in anticipation of restrictive action by the United States, we believed that it would be only fair if the allotment for the first year were to include imports into the United States on and after October 1, 1934.

I said for Mr. Fujii's confidential information that Governor General Murphy of the Philippines would probably be in Washington next week, and that it would be helpful to me if Mr. Fujii could give me as soon as possible some indication of the views of the Japanese Government in regard to the Philippine cotton textile matter.

Mr. Fujii again expressed his appreciation of the manner in which the various questions had been presented to the Embassy; he said that the substance of my statements would be telegraphed to Tokyo, and he felt confident that the Embassy would be in position to make a reply early next week.

611.003 Lead Pencils/96

Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs

[WASHINGTON,] April 18, 1935.

Conversation: Mr. Takemi Miura, First Secretary, Japanese Embassy;
Mr. Toyoji Inouye, Commercial Secretary, Japanese Embassy;
Mr. Otoshiro Kuroda, Attaché, Japanese Embassy;
Mr. Dooman.

Mr. Inouye said that the arrangement made last year in regard to imports of wood-cased lead pencils into the United States from Japan was working satisfactorily; that Japanese manufacturers and exporters had been cooperating to make the arrangement a success; and that the Japanese Government would now like very much to obtain on their behalf some relaxation of the restrictions. He stated

that when the arrangement was made last year the Japanese Government had been obliged to crack a whip over the manufacturers and explorers, who were intolerant of limitation of exports from Japan, but that as the pencil trade had faithfully observed the terms of the arrangement, it was desired "to give them something sweet".

I agreed that the arrangement had worked effectively.

Mr. Inouye went on to say that, as the Japanese had exported less than they were permitted to export to the United States, he wondered whether it might not be well to abandon the arrangement. He felt confident that, even if there were no arrangement, pencil exports would not exceed the amount stipulated in the existing arrangement.

I replied that it was my function only to transmit to the Committee on Economic Policy anything which the Japanese Embassy might have to say, but that I would deplore termination at this time of the pencil arrangement. I pointed out that imports of pencils for the year would amount to about 95,000 gross, or 30,000 gross less than the amount permitted; that there was widespread discussion of "Japanese competition"; and that it would be most useful if both sides could point to the working of the pencil arrangement as an example of the manner in which trade problems could be worked out in a friendly and cooperative manner.

Mr. Inouye said that he, personally, agreed with me. He had put the suggestion forward because he had been directed to do so, but he did not feel disposed to press it.

He hoped, however, that if the arrangement is to be continued, we could next year (beginning May 1, 1935) make the following concession:

The present arrangement provides that not more than 25,000 gross shall be imported in any one month nor more than 45,000 gross in any one quarter, in order that the quota might be evenly distributed over the entire year. As the trade has now become stabilized, Mr. Inouye had no fear that excessive amounts would be imported over a short period, with consequent flooding of the market. He would, therefore, like to have the monthly and quarterly maxima removed, and the present quota divided into semi-annual allotments of 62,500 gross each.

I replied that I would put forward his proposal to the Committee.[49]

---

[49] This was done in a report with recommendations dated May 3, and the proposal to resume discussions on lead pencils was approved by the Executive Committee on Commercial Policy (611.003 Lead Pencils/137).

611.006 Matches/86

Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs

[WASHINGTON,] April 19, 1935.

Conversation: Mr. Toyoji Inouye, Commercial Secretary, Japanese Embassy;
Mr. Mikitara Miho, Japanese Match Export Association for the U. S. A.;
Mr. Dooman.

Mr. Inouye stated that he had accompanied Mr. Miho, Representative of the Japanese Match Export Association for the United States, in order to indicate that the Japanese Embassy in Washington had knowledge of the object of Mr. Miho's call. Mr. Inouye said that the matter in which Mr. Miho is interested did not involve the Japanese Government, but that that Government is following with sympathetic attention the purposes which Mr. Miho is endeavoring to attain.

Mr. Miho stated that he had just come from London, where he had conferred with representatives of Swedish and Soviet match exporters to the United States; that an agreement had been reached among the three interests concerned to limit their exports of matches to the United States; that he understood that the Swedish and Soviet match interests had informed the American Government of the character and extent of the restrictions which each interest would voluntarily impose upon itself in regard to exports of matches to the United States; and that he had come to the Department for the purpose of informing the American Government what the Japanese match interests were also prepared to do.

With that remark, Mr. Miho handed me the attached letter.[50] He asked me to read it, saying that if it contained anything objectionable he would welcome suggestions by way of modifying it. I read the letter and observed that I was not informed in regard to the match situation, but that I saw nothing objectionable in the letter.

Mr. Miho then requested that I bring the letter to the attention of the proper authorities, and I expressed willingness to do so.

611.0031/1638

Memorandum by the Secretary of State

[WASHINGTON,] April 23, 1935.

After talking with the Japanese Ambassador on another subject,[51] I inquired about the state of business generally in Japan. He replied

[50] Not printed.

[51] A proposed consular convention; see pp. 1052 ff.

that his country was going forward to a fair extent with its commercial affairs. I then referred to the reciprocity and general economic program this Government was promoting and urging upon other nations, and to the need for cooperation to the fullest extent from every possible source. I referred to the immense benefit the restoration of normal international trade would be to every trading country; and stated that any possible amount of trade development along the present bilateral and bartering methods with the network of obstructions accompanying them would be insignificant in the future, compared to the broad trade advantages which would result from the United States' program which contemplated the restoration of 20 to 25 billions of dollars worth of international trade. I referred to the tremendous opposition there was from the selfish and extreme high tariff and extreme nationalistic groups in this country, and added that I appreciated the keen interest and sympathy which the Ambassador expressed for himself and his Government in the economic program of the United States.

I then referred to the attitude of the Argentine Government in pressing us rather strongly for an early and quick trade agreement.[52] I said to the Ambassador that of course he could see how that added to our difficulties, in view of the fact that the Argentine was seeking to export to this country such commodities as wheat, flour, and meat, of which we ourselves had surpluses for export. I said that was not a natural or logical trade movement and that it only handicapped this broad program which was intended to give countries, as Argentina and Japan, and all others, like access to a fully restored international trade. I thought this comparison with Argentinian products might remind the Japanese Ambassador of the attitude of his Government in seeking to sell cotton cloth to the United States which is a larger exporter of that commodity.

The Ambassador repeatedly expressed great interest in our economic program and sympathy for us in the hard fight we were having, both on behalf of himself and his Government. He added parenthetically that there were some little trade matters arising from time to time between his Government and mine that he thought they could be worked out all right. C[ORDELL] H[ULL]

611B.9417/24

Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs of a Conversation With the Counselor of the Japanese Embassy (Fujii)

[WASHINGTON,] April 25, 1935.

After lunch at the Japanese Embassy today, Mr. Fujii asked whether he could call on me this afternoon at the Department. I suggested that

---

[52] See vol. IV, pp. 266 ff.

we take advantage of the opportunity to discuss whatever it was that Mr. Fujii had in mind.

Mr. Fujii said that the Embassy had received a very brief reply from the Foreign Office at Tokyo in regard to the matter of regulating exports of Japanese cotton textiles to the Philippine Islands. The reply ran substantially as follows:

In view of Japan's large unfavorable balance of trade with the United States and of the various measures taken by the United States to restrict imports into the United States of Japanese goods, it would be very "difficult" for the Japanese Government to control exports of cotton textiles from Japan to the Philippine Islands.

Mr. Fujii then asked me to explain the circumstances that had brought about the suggestion that imports of Japanese textiles into the Philippine Islands be restricted. I told Mr. Fujii that the matter was not a new one; that it had arisen last year, when there had been a marked increase of textile imports from Japan; that the Philippine Government was disposed to place a heavy duty on cotton textiles; but that this Government had suggested to the Philippine Government that no action in that regard be taken until an opportunity could be had to adjust the problem by friendly discussion between the American and Japanese Governments. I added that if the Japanese Government were unable to enter into such discussions, there was very little that the American Government could do if there should be revived a demand in the Philippine Islands for increased duty on Japanese textiles.

Mr. Fujii then remarked that the Embassy had been instructed to ascertain whether the American Government could, in the event of some arrangement being concluded with the Japanese Government, control American exports of cotton textiles to the Philippines. I replied that I did not believe any difficulty would arise in that regard, as the Philippine customs authorities would presumably keep account of the volume of imports from the various countries.

Mr. Fujii then asked whether the American Government had in mind any specific figures. I replied that no decision had been reached as to figures, but that we had thought that if agreement could be reached in regard to the principle that the Philippine market might be shared on some basis which would take into account the interests of both sides in that market, no difficulty would be encountered in regard to agreeing on some satisfactory figure.

Mr. Fujii then stated that the Embassy would telegraph the Foreign Office today and that he would get into touch with me as soon as further instructions were received.

I asked Mr. Fujii whether any reply had been received in regard to sun goggles. Mr. Fujii stated that the reply received from the Foreign Office made no reference to sun goggles.

611B.9417/25

Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs of a Conversation With the Counselor of the Japanese Embassy (Fujii)

[WASHINGTON,] April 30, 1935.

Mr. Fujii stated that the Japanese Embassy had been instructed by the Japanese Government to inform the Department that:

The Japanese Government accepts the invitation of the American Government to discuss regulation of Japanese exports of cotton textiles to the Philippine Islands. The Japanese Government would be prepared to undertake such regulation on the basis of the actual quantity of Japanese cotton textiles imported last year into the Philippine Islands. The Japanese cotton textile trade would not regard with favor limitation on the basis of the allotment to Japan of a certain percentage of imports, for the reason that the Japanese cotton trade would need to know precisely the amount which could be introduced into the Philippine Islands. It is the Japanese Government's view that an arrangement, if made, should have a duration of two years. The Japanese Government would, however, enter into an arrangement only upon certain conditions, as follows:

1.) That there shall be no increase in tariff during the duration of the arrangement;
2.) That there shall be no division into various categories of textiles of the total annual allotment; and
3.) That the total Japanese allotment may be used at discretion, without division of the allotment into semi-annual, quarterly or monthly allotments.

I informed Mr. Fujii that I was very glad to know that the Japanese Government would be pleased to enter into a discussion of the matter; and I stated that I would transmit without delay to Mr. Sayre the information which Mr. Fujii had communicated to me.

611B.9417/28

Memorandum of Suggested Terms of a Voluntary Arrangement Limiting Japanese Exports of Cotton Piece Goods to the Philippines [53]

[Extract]

WASHINGTON, May 7, 1935.

The subcommittee suggests the following terms for a voluntary

[53] Report adopted by the Inter-Departmental Committee on the Philippines.

limitation of Japanese imports of cotton cloth into the Philippine Islands:

1. *The arrangement should be made for the period of two years* with the provision that it might be reconsidered and revised at the end of one year. If economic conditions should change during the first year, it might be possible to suggest larger allotments to Japan for the second year.

2. *A definite quantitative limitation on imports fixed at 40,000,000 square meters.* Because of the expected decline in Philippine consumption of cotton cloth during 1935, this figure seems to be as liberal as is practicable at this time (40 percent of estimated consumption). There is also the possibility of increased shipments from other sources, especially from Japanese controlled plants in China and Manchuria.

3. *A definite limitation on each type of cloth imported* based on average imports for 1933 and 1934 as follows:

Type of cloth	*Square meters*
Bleached	2,000,000
Unbleached	8,800,000
Dyed	16,400,000
Printed	12,800,000
Total	40,000,000

4. *A maximum limitation on imports during any one quarter of 15,000,000 square meters* and during any one half year of 25,000,000 square meters. The larger quarterly limitation would permit adjustments for seasonal and other variations in demand.

5. *A maximum limitation on quarterly imports of each type of cloth imported* as follows:

Type of cloth	*Quarterly Square meters*	*Half year Square meters*
Bleached	750,000	1,250,000
Unbleached	3,300,000	5,500,000
Dyed	6,150,000	10,250,000
Printed	4,800,000	8,000,000
Total	15,000,000	25,000,000

6. It is suggested that the Japanese Government should exercise its influence to prevent the demoralization of the price structure in the Philippine cotton textile market. It is understood that such action is contemplated for the United States market under the direction of the recently formed export association of cotton textile manufacturers in Japan.

7. *The limitation should become effective on May first*, since conversations began in April and excessive shipments prior to limitation

might nullify the beneficial effects of the arrangement. The first period would then include only May and June. The limitation for this period would be on a proportionate basis, i. e., maximum imports of 10,000,000 square meters.

8. If tariff rates in the Philippines should be materially raised, it would be understood that the arrangement could be reconsidered or terminated.

611B.9417/28a

The Assistant Secretary of State (Sayre) to the Chief of the Bureau of Insular Affairs, War Department (Cox)

WASHINGTON, May 8, 1935.

MY DEAR GENERAL COX: May I send you this confirmation of our telephone conversation of this morning.

Secretary Hull feels that it is important, before we undertake any conversations with the Japanese with regard to the limitation of the export of Japanese textiles to the Philippines, that we should consult with Governor General Murphy to determine whether, in his opinion, it would be advisable to consult with the Filipinos themselves before undertaking such conversations with the Japanese. Secretary Hull's feeling is that if we undertake to regulate Philippine trade without consulting or advising with the Filipino leaders themselves they might possibly resent such action, and that we should therefore consider whether before entering into conversations with Japan it would be wise to consult with them or not. This is a matter as to which we should rely upon Governor General Murphy's opinion. If, in his opinion, it would seem wise to consult first with the Filipino leaders, then we should presumably get in touch with Señor Quezon [54] before his departure from the United States. If, on the other hand, in the opinion of the Governor General, it would be unwise to consult with the Filipinos at this time, Governor General Murphy should be asked to handle the situation in the Philippines so as to prevent any possible resentment arising with regard to this matter.[55]

Sincerely yours, FRANCIS B. SAYRE

---

[54] Manuel L. Quezon, President of the Philippine Senate.

[55] Governor General Murphy discussed the matter with Señor Quezon, "who saw no objection, thought same would be viewed favorably by Philippine interests and regarded this approach to problem preferable to other methods." (611B.9417/34)

611B.9417/14

Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs

[WASHINGTON,] May 23, 1935.

Conversation: Mr. Hirosi Saito, the Japanese Ambassador;
Mr. Sayre;
Mr. Dooman.

Mr. Sayre reviewed the conversation which he had several weeks ago with the Japanese Ambassador in regard to commercial problems. He said that this Administration deplored efforts on the part of nations to capture markets from other countries and that its efforts were devoted toward increasing trade all around in order that all countries might share in the increased business. He felt sure that the Japanese Government shared the views of this Government, and that Japan also believed that every effort should be made toward increasing the total volume of world trade rather than merely trying to capture markets from other countries. It would cause this Government satisfaction, he said, if it could feel that both Japan and itself were putting their shoulders to the wheel in a common effort to bring about the aim which this country so much desired. Mr. Sayre stated that there were, as he had observed on a previous occasion, certain focal points of political discussion which, in the interest of promoting friendly commercial relations between the United States and Japan, should be cleared up quietly by friendly discussion between the two countries. It was possible, of course, for this Government to take ex parte action with a view to satisfying the desire of affected interests in this country for protection against competition, but this Government is firmly convinced that it would be possible by cooperative action to adjust the situations giving rise to agitation in such manner as not to prejudice the interests of either country.

One of these focal points was the question of increased imports into the Philippine Islands of Japanese cotton textiles. Mr. Sayre said that he did not have to inform the Japanese Ambassador of the agitation in regard to increased imports of Japanese cotton textiles into the United States. He was very much gratified that the Japanese Government had expressed willingness to enter into a discussion of the possibility of setting up some arrangement by which exports of Japanese textiles to the Philippines might be voluntarily restricted, as he felt that a satisfactory arrangement of this character would have a favorable effect upon the agitation in respect of the increased imports of cotton textiles from Japan into the United States.

The Japanese Ambassador stated that he supposed that the American Government had probably found the terms of the proposition which the Japanese had made in regard to restricting exports of cotton textiles to the Philippines somewhat difficult. He stated that the Japanese Government had experienced difficulty in dealing with Japanese cotton manufacturers, for the reason that the cotton manufacturers took the position that they purchased a large quantity of raw cotton from the United States and that if their sales of cotton textiles to the United States and to the Philippines were cut down they would not have sufficient credits to maintain their present purchases of American raw cotton. The Japanese Ambassador went on to state that Japan now bought twice as much from the United States as the United States bought from Japan and that therefore it was very difficult to persuade Japanese manufacturers that they should voluntarily restrict exports of their products to American territory.

Mr. Sayre pointed out that, of course, that could not be said of Japan's trade with the Philippines, with which Japan had a favorable balance of trade. Mr. Sayre went on to say that it was not our desire to deprive Japan of a fair share of the Philippine market, but that the sharp increase in imports of textiles from Japan, together with the wide margin between the price of American and Japanese textiles had tended to demoralize the price structure of the Philippine textile market. He felt certain that the Japanese would wish to cooperate in preventing the development of such a situation and that they would prefer to work with the United States toward maintaining normal and healthy market conditions in the Philippine Islands. The Japanese Ambassador indicated assent.

Mr. Sayre then went on to say that the Philippine Committee would look with favor upon conclusion of an arrangement by which the Japanese would undertake voluntarily to limit exports of textiles to the Philippines. We believe that such an arrangement should extend for two years, with the understanding that the terms of the arrangement might be reconsidered at the end of one year. It was our thought that if economic conditions in the Philippines should materially change during the first year it might be possible to give Japan a larger share of the Philippine trade.

It was our hope also, Mr. Sayre continued, that the Japanese Government might use its good offices to increase or to maintain higher prices for Japanese textiles exported to the Philippines, and that the Association which we understand has been recently formed to control exports of cotton textiles to the United States might be used to regulate exports of textiles to the Philippine Islands.

Mr. Sayre stated that our Government had no authority over the tariff policy of the Philippine Islands. It was our belief that if some

arrangement could be made between the American and Japanese Governments of the character contemplated, there would be far less likelihood of the Philippine Government increasing its duties on cotton textiles. If, however, such duties were increased, it would be understood that the Japanese Government would be perfectly free to terminate any arrangement that might be effected.

There then ensued some discussion of the actions of certain Latin American countries toward restricting imports of Japanese goods. The Japanese Ambassador stated that Japanese consuls had been instructed to investigate this matter, and as the result of their investigations it had been definitely established that the restrictive measures of these Latin American countries had in no way been inspired or otherwise brought about by the United States Government.

The Japanese Ambassador said that he was glad to make this acknowledgment. He said that a Cuban official had informed the Japanese Legation in Habana that the restrictive action of Cuba had been brought about by American influence, but the Japanese Government was satisfied that any influence which might have been exercised was not that of the American Government. Mr. Sayre stated that he could positively assure the Japanese Ambassador that the American Government had not only not encouraged any Latin American country to take restrictive action against Japanese goods, but that it had definitely expressed disapproval of American official representatives becoming implicated in any such movement. He said that the matter had first come to his attention in the Autumn of last year, and Mr. Sayre had informed a private American citizen that the State Department would not only not support American citizens who desired that Latin American countries take action against Japan but that it disapproved of such countries taking restrictive measures for the reason that it would be contrary to general trade policies of this Administration, which is to break down trade barriers and otherwise to promote world trade.

The Japanese Ambassador said that his Government entertained no doubt whatever that the American Government is pursuing a liberal trade policy, and that it was a policy which was also being pursued by the Japanese Government.

Mr. Sayre asked whether the Japanese Ambassador desired to discuss with Mr. Sayre the details of the proposed arrangement in regard to imports into the Philippine Islands of Japanese textiles, or whether he preferred that they should be discussed by members of his staff and Mr. Dooman. The Japanese Ambassador stated that he would talk the matter over with the officers of his Embassy, but that he thought it likely that he would assign one or two of his secretaries to look into the matter with Mr. Dooman.

With an exchange of amenities the conversation there ended.

792998—53——68

611B.9417/15

Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs

[WASHINGTON,] May 25, 1935.

Conversation: Mr. Toyoji Inouye, Commercial Secretary of the Japanese Embassy;
Mr. Otoshiro Kuroda, Attaché of the Japanese Embassy;
Mr. Dooman.

Mr. Inouye said that, pursuant to the conversation which the Japanese Ambassador had with Mr. Sayre, the Japanese Ambassador had instructed him and Mr. Kuroda to discuss with me the details of the proposed arrangement for the voluntary restriction of exports of Japanese cotton textiles to the Philippine Islands.

I then laid before them the terms of the proposal as set forth in the memorandum of May 7, 1935, which was adopted by the Philippine Committee. Having done so, I took up in turn each point in our proposal, and using as a guide the memorandum above referred to explained the reasons for our inability to accept without modification the Japanese proposal. I stressed as strongly as possible our estimate that business conditions in the Philippine Islands this year would not be as favorable as they were last year, supporting this estimate with the comparative figures of cotton imports last year and for the first quarter of the present year; that we would not be warranted in granting the Japanese this year an allotment equal to their trade last year; that we would probably come in for considerable criticism if we were to agree to stabilizing the Japanese share of the Philippine market at a volume greater than that of our own share in that market; that the Philippines would enjoy automony in respect of tariff matters, and that we could not therefore guarantee that the Philippine Government would refrain from increasing the duties on cotton textiles.

Messrs. Inouye and Kuroda expressed great disappointment that we had been unable to accept even one of the points of the Japanese proposal.[56] Mr. Inouye said that the Japanese cotton manufacturers took the position that as they purchased large quantities of American raw cotton they should be permitted freely to create credits necessary for the purchase of American cotton; that the proposal which we had presented not only would put Japanese trading with the Philippines in a cage but would handcuff them so they could not move. He felt certain that this proposal would not be acceptable, and that the fact that we had not seen our way clear to accept any part of the Japanese proposal would in itself create hard feeling.

[56] See memorandum of April 30, p. 960.

There then resulted a discussion which extended for more than two hours. The salient features brought out in that discussion were (*a*) that the terms of our proposal were based on sound and practical reasons and considerations and (*b*) that the Japanese would not accept any proposal which they believed to be unduly irksome and restrictive. Mr. Inouye brought out the fact that the Japanese placed primary emphasis on obtaining security in respect of their share of the Philippine market, and he said that it was his understanding that the Japanese would require a guarantee against the Philippine Government taking action to raise duties on cotton textiles as a *sine qua non* to voluntary restriction of their exports. He believed further that if the arrangement were subject to review and modification after one year the desire of the Japanese cotton industry for security would not be adequately met.

Mr. Inouye said that he would of course recommend that the Embassy forward to Tokyo our proposal, but he said that he would on his own responsibility request that the Philippine Committee reexamine the terms of our proposal with a view to modifying it in some way which would make it possible for the Japanese Government to urge their manufacturers to undertake voluntary restriction of exports.

I said to Mr. Inouye that I believed that the discussion had been very profitable in that it had developed certain points of difference and it had made it possible for each side to appreciate a little more fully the attitude and spirit of the other side. I promised to report to the Committee as soon as possible, and I said that I would recommend to Mr. Sayre that he call the Committee together as soon as possible to receive my report on our present conversation.

611B.9417/26

Memorandum by Mr. Roy Veatch of the Office of the Economic Adviser

[WASHINGTON,] May 31, 1935.

The Inter-Departmental Committee on the Philippines recommends that conversations be continued with representatives of the Japanese Embassy with respect to the voluntary limitation by the Japanese of their shipments of cotton textiles to the Philippine Islands, the following position to be taken with respect to the specific counter-suggestions made by the Japanese in the last exchange of views:

1. Point 3 in the original proposal of this Government (memorandum of May 7, 1935) to be eliminated so that no specific commitment would be requested with respect to limitation of Japanese shipments of cotton piece goods by categories, although the Japanese should be encouraged to give some general assurance that no effort would be made to concentrate shipments in certain categories.

2. Elimination of Point 5 of the original proposal so that no commitment would be requested with respect to limitation upon quarterly or semi-annual shipments by categories.

3. Modification of Point 4 of the original proposal, eliminating the suggestion of a maximum quarterly limitation but maintaining the request for a maximum semi-annual limitation, on total shipments, of 25,000,000 square meters.

4. No modification of the original proposal with respect to total annual quantitative limitation. The figure of 40,000,000 square meters should be insisted upon, in view of the fact that total imports of cotton piece goods into the Philippines during the first quarter of this year show some decline from the first quarter of 1934, indicating that the total consumption this year may be lower than 100,000,000 square meters, the original estimate. In connection with discussions of the share of the Philippine market to be alloted to the Japanese, there should be no suggestion that the Philippine market might be "divided" more or less equally between Japanese and American exporters, since this suggestion might establish an undesirable precedent.

5. The request that the Japanese Government should exert its influence to prevent the demoralization of the price structure in the Philippine cotton textile market, Point 6 of the original proposal, should be withdrawn, since the quantitative limitation proposal should have the effect of strengthening prices.

611B.9417/17

Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs

[WASHINGTON,] June 5, 1935.

Conversation: Mr. Otoshiro Kuroda, Attaché, Japanese Embassy;
Dr. Frank A. Waring, United States Tariff Commission;
Mr. Dooman.

Mr. Dooman stated that on the occasion of the conversation which he had with Mr. Inouye, Commercial Secretary of the Japanese Embassy, and Mr. Kuroda on May 25, he had presented certain proposals in regard to the limitation of exports of cotton textiles from Japan to the Philippine Islands; that Mr. Inouye had observed that the American proposals would not in any respect meet the proposals put forward by the Japanese [57] on May 7; and that Mr. Inouye had with great eloquence urged that there should be some modification of the terms

---

[57] See memoranda of April 30 and May 7, p. 960.

proposed by the American side with a view to approaching the Japanese proposal. Mr. Dooman added that he had reported the Japanese viewpoint to his Committee, and that the Committee had now authorized him and Mr. Waring to put forward a revised proposal, as follows:

1. That any arrangement would be for a period of two years, subject to modification at the end of one year.

Mr. Dooman stated that this would not be the same thing as an arrangement for one year, for the reason that any modification proposed would naturally observe the principle and spirit of the arrangement. Mr. Waring added that revision at the end of one year might work out equally to the benefit of the Japanese as to their disadvantage; that if there were any improvement in business conditions the Japanese would be given an increased share of the market, but that correspondingly if there were no improvement it would not be practicable to grant any increase.

2. Exports of cotton textiles from Japan should be limited to a figure fixed at 40,000,000 square meters.

Mr. Waring explained that a survey of business conditions had been made and there were indications that imports to the Philippine Islands of cotton textiles would show a decrease as compared with last year. This was primarily due to a reduction in the arrangement for the purchase by the United States of Philippine sugar. However, the quota for purchases of Philippine sugar next year would be substantially increased, and it is, therefore, expected that the purchasing power of the Philippines would be correspondingly increased, and that there would, therefore, be next year an improvement in the cotton textile market.

3. No restrictions would be requested in regard to categories of cotton textiles.

Mr. Dooman said that this represented the elimination of one of the points of the original American proposal, and would operate to liberalize the arrangement.

4. There should be a semi-annual maximum exportation of 25,000,000 square meters. The suggestion in the original proposal that there should be a quarterly limitation had been withdrawn.

Mr. Dooman explained that the elimination of this restrictive measure, together with elimination of the restriction on categories of cloth, were intended to meet the desire of the Japanese for a more elastic arrangement. We took the view that the Japanese regarded the Philippine Islands as a permanent market for their products, and we felt confident, therefore, that the Japanese would not disrupt the

market by methods which might give temporary profits but which would be dangerous to the Japanese from the long term point of view. We did not ask the Japanese to commit themselves specifically to regulating exports in accordance with the categories originally put forward, but we would welcome an assurance from them that they would cooperate in fostering the Philippine market.

5. The United States has no authority to supervise and regulate the tariff policy of the Philippine Islands, and, therefore, there would be no warrant in giving assurance that the Philippine Islands will not increase its duties on Japanese cotton textiles. It would be understood, however, that if the Philippine Islands substantially raised its duties on Japanese cotton textiles, the Japanese Government would be at liberty to terminate the arrangement.

Mr. Kuroda stated that he understood our proposal and that he would hasten to report to the Ambassador with a view to sending forward a report to the Japanese Government.

611.0031/1767

Memorandum by the Secretary of State

[WASHINGTON,] June 15, 1935.

The Japanese Ambassador called and presented a member of the Lower House of the Japanese legislative body, Mr. Okada. After some casual conversation about nothing in particular, Mr. Okada inquired what comment if any I had in mind about tariff reduction. I replied that this Government was supporting a broad, comprehensive program for the restoration of international finance and commerce to a normal level; that the world could in an equally profitable way to all nations maintain 25 to 30 billions of dollars more of international trade than it had at the present time; that this condition was a major factor in present unemployment of both capital and labor, to say nothing of unstable domestic economic conditions everywhere; that my own country, as well as others, was suffering from many decreases in our already almost dried up international commerce as we saw it in the world today; that many countries were erecting still higher skyscraping barriers, with the result that during recent months our exports of foodstuffs had fallen off nearly one-third; that Japan was not the only country whose exports were being increasingly shut out of many countries; and that it highly behooved all of our important nations to forget about minor short-sighted trade methods, such as were being carried on at present, and to work for the success of the broad economic program which the United States Government was supporting, to the end that we might restore the large and normal volume of international trade aggregating, as stated, 25 to 30 billions

of dollars more than the present volume. I elaborated somewhat on these phases and discounted efforts of many countries to float along with their present narrow and short-sighted trade methods and policies. I felt that the Japanese Ambassador might convey these views to his Government.

C[ORDELL] H[ULL]

611B.9417/36

Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs of a Conversation With the Attaché of the Japanese Embassy (Kuroda)

[WASHINGTON,] June 15, 1935.

Subject: Japanese Exports of Cotton Textiles to the Philippine Islands.

Mr. Kuroda called to present Mr. Hayama, recently appointed Second [*Third*] Secretary of the Japanese Embassy, and profited by the occasion to bring up the proposal in regard to the above-mentioned subject which Mr. Waring, of the Tariff Commission, and I laid before him on June 5, 1935. He said that the Japanese were much gratified by the elimination of the suggestion that there should be limitation by categories of cotton textiles and that there should be quarterly maximum exports. The terms put forward were not, however, entirely satisfactory to the Japanese exporters and manufacturers, who, Mr. Kuroda said, had expressed to the Japanese Government the opinion that the American Government apparently wished to eliminate completely Japanese competition in the Philippine market and that upon the termination of the arrangement, if adopted, at the end of two years would place the Japanese entirely at the mercy of the United States. Mr. Kuroda said that he wished to read to me the statement made to the Japanese Government by the manufacturers, but I told Mr. Kuroda that I saw no reason why I should be made to listen to views which so egregiously distorted the desire of this Government to work cooperatively with the Japanese Government and to give full consideration to the question of preserving Japanese interests in the Philippine textile market; and I added that I could only suppose that the Japanese manufacturers had not fully understood our proposal.

Mr. Kuroda then proceeded to explain the Japanese position, which was as follows:

1. The proposed arrangement should be for two years;
2. The volume of trade of Japan should be regulated in the light of the volume for the nearest period prior to the arrangement coming into effect, and it should, therefore, be based on actual figures for the year 1934, or 56,356,982 square meters;
3. In regard to the suggestion that there should be a maximum limitation of 10,000,000 square meters for May and June, consideration

should be given to the fact that such period will have practically come to an end before any arrangement can be put into effect;

4. The proposed arrangement should begin on July 1, 1935, and should continue until June 30, 1936, when it should be modified by the application of point 5 hereunder;

5. "Ten per cent of the maximum limitation should be flexible", any excess over the maximum or unused balance thereof to be adjusted at the beginning of the second year;

6. The half year periodical maximum is agreeable to the Japanese, but the maximum in any half year should be 35,000,000 square meters; and

7. It is desired to obtain some guarantee or assurance "that the United States Government will do its utmost to prevent any increase in the tariff of the Philippine Islands".

I said to Mr. Kuroda that I did not wish to discuss even informally the terms above outlined without Mr. Waring being present. I could not, however, allow the conversation to terminate without recalling the complaint of Mr. Inouye, the Commercial Secretary of the Japanese Embassy, that the original American proposals had not in any respect met the original Japanese proposals; and I hoped that the Japanese would give consideration to the fact that their new proposals not only did not meet our second proposals in any respect but that they contained one or two points which even went beyond the terms of their original proposals.

I said that I would report to Mr. Sayre as soon as possible and reply in due course.

611B.9417/38

Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs

[WASHINGTON,] June 19, 1935.

Conversation: Mr. Hirosi Saito, the Japanese Ambassador;
Mr. Sayre;
Mr. Dooman.

Mr. Sayre said that we had been favorably impressed and gratified nese Ambassador in April, when he had frankly laid before the Japanese Ambassador our views in regard to the adjustment of commercial relations between the United States and Japan; that he had then explained that it was our desire to remove certain focal points of agitation in regard to Japanese competition; and that such focal points had included the Philippine cotton textile situation.

Mr. Sayre said that we had been favorably impressed and gratified by the spirit of cooperation shown by certain groups of Japanese manufacturers and merchants, notably those interested in cotton rugs, pencils and pottery, and we felt that their attitude had been

distinctly helpful in the progress toward recovery that has been made by affected American industries during the last twelve months. Unfortunately the attitude of Japanese manufacturers and merchants interested in the Philippine cotton textile market had not been equally cooperative. Mr. Sayre stated that we regretted very much to find from the most recent proposal put forward through the Japanese Embassy that there has been no response to our desire, of which we have given proof, to consider sympathetically the needs of the Japanese. Mr. Sayre further pointed out that the most recent proposal not only was not responsive, but that in one or two respects it went beyond the terms of the original Japanese proposal.

In conformity with the spirit of friendliness and frankness which had prevailed in the conversations which Mr. Sayre had thus far had with the Japanese Ambassador, Mr. Sayre wished to inform the Japanese Ambassador in strictest confidence of a development that was taking place on Capitol Hill. He said that there is being circulated for signature by Senators and members of Congress a petition to the Philippine Legislature that the duty on cotton textiles be increased; and that the petition has already received a substantial number of signatures, with new signatures being added each day. Mr. Sayre thought it possible that the opportune moment for the making of an informal arrangement in regard to the Philippine textile situation had already passed, but nevertheless he was hopeful that the conclusion of such an arrangement would operate to induce the signers of the petition to refrain from approaching the Philippine Legislature.

The Japanese Ambassador stated that according to private advices which he had received Japanese manufacturers and exporters of cotton textiles to the Philippines were taking a very strong position in regard to suggestions toward limiting exports to American territory; that they contended that, as they purchased and consumed large quantities of American raw cotton, and as Japan also had an unfavorable balance of trade with the United States, the Japanese should have unrestricted opportunity to market their cotton products abroad and thus establish credits for the purchase of American raw cotton. Mr. Sayre pointed out that so far as the trade between Japan and the Philippine Islands was concerned, Japan enjoyed a favorable balance, and, therefore, he could not appreciate the force of the contention of the Japanese that their exports to the Philippines should not in any way be limited.

Mr. Sayre went on to say that the proposal presented to us last week by the Japanese was being carefully examined with a view to determining whether it would be possible for us to make further concessions. He thought it possible that some modification might be made, but he emphasized that no agreement could be reached unless the Japanese were prepared to give evidence of a cooperative attitude. If the

Japanese manufacturers and exporters can present to us satisfactory evidence of an earnest desire to arrive at an agreement, we would proceed at once to indicate to the Ambassador what further concessions could be made by us.

Mr. Dooman said that he wished to supplement the remarks of Mr. Sayre. He said that at his first conversation with a representative of the Japanese Embassy in regard to the Philippine cotton textile situation, he made it clear that it was our desire not to eliminate the Japanese from the Philippine market but that, on the contrary, we wished to share that market with the Japanese; that he had stated to Mr. Fujii, the Counselor of the Embassy, that we were thinking along the lines either of defining the respective American and Japanese shares in terms of percentages or in terms of actual figures; that Mr. Fujii had in due course stated that the Japanese wished to have the share defined in terms of definite figures. Mr. Dooman pointed out that the allotment of 40,000,000 square meters, which we had proposed as the Japanese share, would probably equal during the next year the figure of American exports to the Philippine Islands, but that if we were to grant Japan 56,000,000 square meters, the Japanese share of the trade would amount to about 70%. Mr. Dooman expressed the opinion that it would be politically impossible for us to agree to any such arrangement.

Mr. Sayre confirmed the opinion of Mr. Dooman as above expressed, and added that any arrangement which was made would have to provide security for American interests as well as for Japanese interests. He hoped that the Japanese Ambassador would make it clear to his Government that we were mindful of the difficult character of the problem, and that we desire to seek in a spirit of good will and friendly understanding an adjustment of the Philippine situation in such manner as to equitably safeguard and promote the interests of both Japan and the United States.

The Japanese Ambassador stated that he would take pains to see that the statement of views and facts expressed by Mr. Sayre were made clear to his Government, and he hoped that he would be in position shortly to confer again with Mr. Sayre.

611.946 Rag Rugs/78

The Assistant Secretary of State (Sayre) to the Japanese Ambassador (Saito)

WASHINGTON, June 26, 1935.

MY DEAR MR. AMBASSADOR: The statement made on June 7 by a member of your staff to an officer of the Department[58] that the

---

[58] Not printed.

Japanese manufacturers and exporters of cotton rugs would be prepared to extend for another year the arrangement to limit exports of cotton rugs from Japan to the United States has been noted with appreciation.

In acknowledging the cooperative spirit displayed by these manufacturers and exporters, I would like to have you know that a survey is now being made of the American cotton rug industry in an effort to determine if possible whether there has been an improvement during the past year in the condition of that industry. We hope that the survey will conclusively indicate that there has been a substantial increase in total consumption in the United States during the year, and if such should be the case, we would expect some measure of increased participation by Japanese exporters in the American market.

I am [etc.] FRANCIS B. SAYRE

611.9417/48

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

No. 1366 TOKYO, June 27, 1935.
[Received July 13.]

SIR: I have the honor to enclose herewith a memorandum, dated June 22, 1935,[59] of a conversation between Mr. Saburo Kurusu, the Chief of the Bureau of Commercial Affairs of the Foreign Office, and Mr. Dickover, of this Embassy, on the subject of American-Japanese trade relations, as well as a memorandum, dated June 25, 1935,[59] of a conversation between Mr. Kurusu and Mr. F. S. Williams, Commercial Attaché of this Embassy.

From the two memoranda it is apparent that Mr. Kurusu hopes to be able to reach some sort of informal agreement with the American Government which will impose voluntary restrictions upon the exports of Japanese cotton piece goods to the United States and the prices at which they will be sold in the United States, in return for which the American Government will be expected not to take legislative action designed to impose higher tariffs upon or to restrict the importation of Japanese cotton piece goods into the United States.

The Embassy will be glad to receive any instructions which the Department may deem it advisable to give in this connection.

Respectfully yours, JOSEPH C. GREW

[59] Not printed.

611B.9417/41

Memorandum by Mr. Leo D. Sturgeon of the Division of Far Eastern Affairs of a Conversation With the Third Secretary of the Japanese Embassy (Hayama)

[WASHINGTON,] July 11, 1935.

Mr. Hayama of the Japanese Embassy asked for an appointment, and came to see me this morning at about 11:30. He stated that there had appeared in the press the information that the Governor of the Philippines had recently proposed certain protective tariff legislation with respect to imports of cotton textiles, and that the Embassy wished to inquire into its significance. Coming at a time when Japan and the United States were making "friendly" efforts to arrive at a quota agreement, Mr. Hayama thought the news in question was somewhat disturbing. He requested any information in regard to the matter that might be supplied.

I informed Mr. Hayama that I had only just heard the news to which he called attention, and therefore could not give him any information at the time, but that I would see what could be found out, and get in touch with him later.

It would perhaps be advisable to make some reply to this inquiry with as little delay as possible; otherwise the reported tariff action at Manila may be utilized by textile interests in Japan in such a way as to obstruct present negotiations looking toward a quota agreement between the Governments of Japan and the United States.

611B.9417/43

Memorandum by Mr. Leo D. Sturgeon of the Division of Far Eastern Affairs of a Conversation With the Third Secretary of the Japanese Embassy (Hayama)

[WASHINGTON,] July 13, 1935.

Mr. Hayama called at my request to discuss certain questions which have arisen in connection with our negotiations with the Japanese for a division of the Philippine cotton textile import trade on a quota basis. The questions had arisen in regard to the basis of estimated 1935 textile imports into the Philippines, and with respect to possible significance that may attach to the recent message of the Governor General to the Philippine Legislature.

1. *Explanation of Basis of Estimated Trade Figures*

Mr. Hayama had previously asked for an explanation, which I had partially furnished, in regard to the basis of our estimate of (*a*) the total 1935 textile imports into the Philippines, and (*b*) the total imports of third countries other than Japan and the United States.

I had previously explained to Mr. Hayama that our estimate for the total trade was lower than the 1934 figure, owing chiefly to the fact that Philippine sugar imports into the United States were certain to be lower during the current year than in 1934, due to shipments over quota allotments in 1934 which must be charged to imports for the current year. It was explained that, according to Tariff Commission data, the reduction in the sugar trade for 1935 compared with 1934 may approximate 50 percent. In regard to our estimate of trade for third countries which the Japanese considered too high (12,000,000 square meters), I informed Mr. Hayama that further investigation of this point indicated that an error had been made and that we estimate that third country importations into the Philippines in 1935 will amount to about 6,000,000 square meters.

Closely following a memorandum [60] prepared by Mr. Hansen [61] and approved by the Interdepartmental Committee on the Philippines, I explained that this estimate was based on figures for 1934 and for the first quarter of 1935, and that on this basis the combined Japanese-American importation in 1935 is estimated at 84,000,000 square meters, of which the Japanese would be allotted 40,000,000 square meters. I further said that, as the Japanese were doubtless aware, an absolute quantity allotment would be more favorable to them than one based upon percentages. It was emphasized that an allotment based on absolute quantity frees the Japanese from risks involved in any decline in the trade in question.

2. *Statement in Regard to Governor General Murphy's Message to the Philippine Legislature*

I next referred to Mr. Hayama's previous inquiry as to the possible significance of Governor General Murphy's message to the Philippine Legislature on the textile situation. I reminded him that the Japanese had been advised in earlier conversations that unless we could arrive at a voluntary arrangement under which the Philippine market would be fairly divided between the United States and Japan, there would inevitably develop political pressure in the American Congress, and possibly in the Philippine Legislature, to erect tariff barriers against textile imports into the Islands; but that this Government is still prepared to work toward a voluntary arrangement along the lines originally discussed. I added that we stand now as before and that should an arrangement between Japan and the United States be put into effect this Government would take no positive step in support of a tariff in the Philippines, but would utilize as far as appropriate such influence as it possesses to discourage tariff action there looking toward higher duties on textiles.

---

[60] Not printed.

[61] Alvin H. Hansen, chief economic analyst, Division of Trade Agreements.

I called attention to a recent conversation between Mr. Sayre and the Japanese Ambassador [62] in which it was frankly stated to the Ambassador that it was our desire to remove certain focal points of agitation in regard to Japanese competition, and when it was confidentially indicated that this effort was being handicapped by the circulation of a petition in the American Congress designed to influence Philippine tariff legislation. I informed Mr. Hayama that this movement in the Congress had continued, as evidenced by a petition recently submitted by it to the Philippine Legislature; and that the Governor General's message to the Philippine Legislature may have been influenced in part by agitation in the American Congress and by pressure from American textile interests. I made it clear, however, that the Governor's message had been initiated in the Philippine Islands, even though probably influenced by sentiment in this country as indicated.

Mr. Hayama interposed a number of questions during the conversation. He wished particularly to know if our attitude of non-support and non-encouragement of tariff legislation in the Philippine Legislature meant that we could prevent such legislation. I told him that I believed it had already been made clear that our attitude did not mean this but that it did mean that we were "playing fair" with the Japanese; and that we hoped to continue along lines already begun toward the object of an amicable adjustment of the Philippine trade question. I added that we considered a quota arrangement more likely than tariff legislation to reduce to a minimum possible friction and agitation among trade and other interests concerned.

Mr. Hayama wished to know if he could say in reporting this matter that the State Department was not connected with or behind the Governor's message. I told him that this was the true situation, and again called his attention to the fact that the message of the Governor was initiated in the Philippines and, so far as we were aware, only indirectly influenced in this country.

3. *Information on Situation in Japan*

Mr. Hayama stated that he wished to give me some "information" on the situation in Japan in regard to our negotiations on the Philippine textile question. He said that the Foreign Office had held a conference of the government departments concerned, chiefly the Department of Commerce, and manufacturers and exporters, and had attempted to secure some concession to our position. Unfortunately, he said, both the Japanese manufacturers and exporters strongly opposed anything less than the 56,000,000 square meters originally requested as their share of the Philippine trade, and that the Foreign

[62] See memorandum of June 19, p. 972.

Office is in an embarrassing position. Mr. Hayama said that the Embassy here tentatively was considering some way out of the dilemma. He wished to know, in view of the original proposition of sharing the Philippine trade on a fifty-fifty principle, what our attitude would be toward basing a quota arrangement on the annual average total quantity of imports into the Philippines for the last three years, which he stated would be 110,000,000 square meters, of which third countries secured 10,000,000 square meters. This would leave 100,000,000 for equal division between Japan and the United States, i. e., 50,000,000 square meters for each country. Mr. Hayama pointed out that preliminary figures for the first six months of this year indicated that Japanese exporters had already shipped 40,000,000 square meters of textiles to the Philippines, indicating that even a quota arrangement allotting 50,000,000 square meters would still constitute a large sacrifice on Japan's part. I replied that I could not give encouragement to this tentative proposal, in the light of past negotiations, but would submit it for consideration if that was desired. This was requested.

611.003 Silk/11

Memorandum by Mr. Leo D. Sturgeon of the Division of Far Eastern Affairs

[WASHINGTON,] July 16, 1935.

Conversation: Mr. Toyoji Inouye, Commercial Secretary, Japanese Embassy;
Mr. N. Egawa,
Mr. T. Wakimoto, and
Mr. Takeshige Ishiguro, Representatives of the Japanese Raw Silk Importers Association of New York;
Mr. Sturgeon.

Mr. Inouye stated that he and the representatives of the Japanese Raw Silk Importers Association of New York had come to discuss the proposed taxes on rayon and silk in connection with AAA amendments now before the Senate Agricultural Committee. He said that they had called on Mr. Myers of the Agricultural Adjustment Administration and had received copies of the proposed amendments. Mr. Sturgeon said that we had not received copies of the amendments but had received certain information from an officer of the Department of Agriculture. The proposed tax rates were then shown to Mr. Inouye.

Mr. Sturgeon said that he understood that the tax on rayon was a compensatory tax to preserve the relative competitive positions of rayon and silk.

Mr. Inouye said that the tax proposals arose from the theory that rayon is competitive with silk, but that the Japanese contended that it was not; that statistics since 1933, when the AAA was enacted,[63] will show that there has been no increase in the consumption of silk, but on the contrary a decline. Mr. Inouye understood that the object of the AAA was to give relief to American farmers, and especially to cotton farmers, but that if Japan is to continue to buy much cotton from the United States there must be purchases of silk from Japan. He added that raw silk is the chief agricultural commodity of Japan and that if the tax rates against silk are enacted the Japanese people will naturally be resentful; that the Japanese farmers do not understand the workings of the American Congress and will think the taxes an act of the Government against the Japanese. He thought the Japanese press also would give the matter wide and unfavorable publicity.

Mr. Egawa pointed out that about 90% of the raw silk brought to this country is not competitive with rayon. He said that the imports could be divided into two parts, 50% going into weaving of clothing, and 50% into knitting, particularly hosiery; and that in the case of knit goods, there is no place for silk to compete with rayon, as experiments have not proved commercially successful. He added that the demands of the American market prevent real silk from competing with rayon.

Mr. Wakimoto said that he understood from Mr. Myer (Department of Agriculture) that the American cotton trade wanted a tax on rayon, and that as a result rayon interests demanded taxes on silk. He said that if Japan sells less silk to the United States it will have to buy less cotton, although even now Japan sells less in this country than it buys here. He believed that the taxes would harm American farmers as their imposition would tend to decrease the sales of raw silk here, thus reducing the purchasing power of Japan in the American market.

Mr. Sturgeon asked if rayon competes with cotton and to what degree. Mr. Inouye replied that there was some competition between raw silk and rayon but it is difficult to say how much rayon competes with cotton. He emphasized again the point that increased consumption of rayon, while that of silk decreased, is proof of rayon's competitive advantage wherever competition exists.

Mr. Ishiguro said that the proposed taxes were extremely serious for Japan as 40% of its families, or 2,000,000 farmers, are making a living from sericulture. The matter was, therefore, not only serious for silk exporters but for the Japanese sericultural industry.

Mr. Inouye finally stated that the worst feature of the proposed taxes was the probability that they would create ill feeling in Japan

[63] The Agricultural Adjustment Act, approved May 12, 1933; 48 Stat. 31.

against the United States. He wished it to be clear, however, that his call at this time was for the purpose of explaining the Japanese position with respect to the taxes. He said that he was aware that the Administration was not responsible for the proposed taxes, but that he wished to utilize its good offices.

Mr. Sturgeon said that he believed that the gentlemen present were familiar with this Government's efforts to follow a liberal policy in regard to international trade, and that while no line of action could be promised, the statements made would be carefully noted and brought to the attention of competent officials of the Department. Mr. Sturgeon added that he hoped that Mr. Inouye would in the meantime so explain to his Government the situation existing here that misunderstandings could be eliminated or reduced to a minimum.

611B.9417/20a : Telegram

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

WASHINGTON, July 16, 1935—8 p. m.

109. Your telegram 151, July 16, 4 p. m., last paragraph.[64] Department suggests, provided that you perceive no objection, that you casually express the hope that present negotiations between the United States and Japan looking toward an apportionment of the Philippine textile trade may be brought to a mutually satisfactory conclusion.

With the exception of the foregoing, the Department would prefer to leave to your judgment selection of other matters which might appropriately be discussed with the Foreign Minister.

PHILLIPS

611.003 Rayon/6

Memorandum by Mr. Leo D. Sturgeon of the Division of Far Eastern Affairs of a Conversation With the First Secretary of the Japanese Embassy (Miura)

[WASHINGTON,] July 17, 1935.

Mr. Miura said that he had called to inform the Department in regard to a telegram received at the Embassy from the Central Committee of the Japanese Silk Association in Japan. He said that the Ambassador was out of town, but would probably call tomorrow to discuss the proposed silk taxes with either the Under Secretary or Mr. Sayre.

---

[64] *Ante*, p. 314.

In the meantime Mr. Miura said that he wished to advise that, according to a telegram received from the Silk Association, the Japanese Government and people regard the question of the proposed silk taxes as more serious than questions involving the textile trade, and have asked the Embassy to make every effort to secure elimination of the taxes. Mr. Miura further stated that some of the members of the Central Committee of the Silk Association were also members of the Diet, and in consequence undesirable political reaction is feared. He stated that the silk industry is related to Japan's social welfare problem, and also to its general agricultural problem, and reemphasized that it is of more serious concern to the Japanese than questions relating to the limitation of cotton textile exports.

Upon leaving Mr. Miura stated that he appreciated the difficult position of the Department with respect to action designed to prevent the proposed taxes being placed into effect; he wished, however, to request that we do our utmost, within the limits of propriety, to prevent enactment of the silk taxes.

Mr. Sturgeon informed Mr. Miura that he had gained an understanding of the Japanese position from the conversation had the previous day with the Japanese Commercial Attaché and would bring the substance of Mr. Miura's statements to the attention of the officers concerned in the Department. He reminded Mr. Miura that it had been the object of this Administration to avoid as far as possible obstructions to the natural development of trade with other countries.

611.9431/94

Memorandum by the Ambassador in Japan (Grew) of a Conversation With the Chief of the Commercial Affairs Bureau, Japanese Foreign Office (Kurusu)[65]

[Tokyo,] July 17, 1935.

Mr. Kurusu came to see me this morning, at his request, and in the course of conversation he brought out the following points concerning the trade relations between Japan and the United States:

1. He said that although Mr. Hirota[66] was familiar with trade questions as he had formerly occupied the position now held by Mr. Kurusu, nevertheless he was accustomed to leaving these matters and the general commercial policy of the Government in Mr. Kurusu's hands. Mr. Kurusu said that his own policy coincided very closely with that of Mr. Hull for the breaking down so far as possible of trade barriers in the shape of high tariffs, quotas and other restrictions and

---

[65] Copy transmitted to the Department by the Chargé in Japan in his despatch No. 1409, July 25; received August 10.

[66] Koki Hirota, Japanese Minister for Foreign Affairs.

the settlement of each question by direct negotiation and compromise. Particularly with the United States he desired to maintain the most friendly trade relations and he said he had no doubt that this could be done if the public agitation in the United States against certain categories of Japanese goods would be met by friendly negotiation with the Japanese Government instead of the arbitrary raising of tariffs or other restrictions. Mr. Kurusu said that in the main our trade was complementary rather than competitive (obviously cotton and silk) and that the more textiles Japan could ship to the United States the more cotton she would buy from the United States. He fully realized the difficulties which our Government had to face in the public agitation of certain industrial interests against the importation of Japanese low grade goods. Naturally there was a market for both high grade textiles and low grade textiles, but in all these cases involving any commodity he was always ready to effect a fair and reasonable compromise by handling the matter at this end so long as these matters were brought up for friendly negotiation and were not met by arbitrary action in the United States.

2. Mr. Kurusu then turned to the difficult question of Japan's trade with third countries, especially the countries of Central and South America where he said that the British and American industrial interests were taking active steps to crowd out Japanese trade. On my asking him the method of procedure adopted by these industrial interests he said that they tried to bring pressure on the local government to erect restrictions against Japanese goods. I told Mr. Kurusu that it was very difficult for our Government to influence either the local governments concerned or to control the American industrial interests involved. He said he realized this but hoped that the United States by setting the example of Mr. Hull's trade policy in general would be able at least to affect this situation.

3. The third point raised by Mr. Kurusu was the argument advanced by these and other countries in favor of a balance of trade. In his opinion this was an unsound argument and he knew that in this respect he was in agreement with Mr. Hull. International trade should be based on a perfectly free flow of goods and should not be arbitrarily restricted with the purpose of precisely balancing the trade between any two countries. He realized that questions of exchange were here involved but he thought that the principle at issue was of paramount importance.

Mr. Kurusu then turned to the pending textile negotiations concerning Japanese trade with the Philippines and he said that on the basis of the spirit of cooperation and compromise which has already been manifested, he thought the question was going to work out satisfactorily.

In reply to my specific inquiry concerning Japanese trade relations with Canada, Mr. Kurusu said that the retaliatory measures would probably be placed in effect on July 20, or as soon as the matter could be submitted to the Emperor. The new tariff measures would involve principally lumber, wheat and pulp. He saw no reasons why similar measures should be taken against the United States and he repeated that his efforts were constantly directed to the maintenance of friendly trade relations with us on the basis of cooperation and fair compromise. I referred to Mr. Hull's various speeches on the general subject of trade relations, Mr. Phillips' speech at San Diego and my own address before the America–Japan Society last week. He said that he had read all or most of these speeches and was thoroughly in accord with the principles laid down. He added that his own difficulties in Japan were perhaps as great or greater than the difficulties of the Department of State; that he was constantly under fire and criticism from various Japanese industries and other sources; that he was obliged to show considerable courage in dealing with them.

Turning to Japanese trade relations with Great Britain he said that in connection with the Crown Colonies the British had made the mistake of crowding out Japanese goods to such an extent that a vacuum had been raised which could not be filled and they were now obliged to turn once more to Japanese goods.

Mr. Kurusu referred to his conversation with me in Karuizawa last year concerning the question of certain shipping taxes at issue between the United States and Japan and said that in view of the fact that the Japanese interests had now offered a compromise he hoped very much that the matter could be speedily settled.[67] I said that I would be glad to look into it in Washington and that I would also bring directly to the attention of the Secretary of State the various points which he had raised in our conversation.

J[OSEPH] C. G[REW]

611.003 Rayon/5

Memorandum by the Under Secretary of State (Phillips)

[WASHINGTON,] July 19, 1935.

The Japanese Ambassador called this morning to present his new Counselor of Embassy, Mr. Seijiro Yoshizawa, who has just arrived in Washington and who will act for the Ambassador in the latter's absence in Connecticut during the summer months.

Before leaving the Ambassador expressed his thanks and appreciation for the help which the Department gave in removing the danger

---

[67] See *Foreign Relations*, 1934, vol. III, pp. 827 ff.

of a tax on rayon [and] silk. He said that he had received no instructions to express these views, but that this morning he was in receipt of various telegrams of gratification from private parties, and was very glad for the occasion to express his own sentiments.

WILLIAM PHILLIPS

611B.9417/50

The Japanese Embassy to the Department of State [68]

MEMORANDUM

1. The total quantity of cotton piece-goods which may be exported from Japan to the Philippines shall be voluntarily restricted to 50,000,000 square meters for the period of one year beginning July 1, 1935, and ending June 30, 1936, (namely the allotment of cotton piece-goods during any half of the year shall be 25,000,000 square meters). In an unavoidable circumstance exception may be made for the first year in that the quantity exported from Japan to the Philippines during the first half (July to December) and the second half (January to June) shall be 20,000,000 square meters and 30,000,000 square meters, respectively.

2. The United States Government will not induce or encourage the Philippine Government to take any steps toward an increase of customs duty on Japanese cotton piece-goods imported into the Philippines. The United States Government will be good enough to obtain an understanding from the Philippine Government not to increase the present customs duty on Japanese cotton piece-goods imported into the Philippines.

3. The period of such voluntary restriction by Japanese shall be two years, provided that the biannual allotments may be transferred to each other within the same annual period to the amount of 10 per cent of the said allotment.

4. The Association of those concerned in Japan will strictly control the exportation of cotton piece-goods from Japan to the Philippines to the end that the present arrangement will be satisfactorily carried out. It is, at the same time, desired that the Philippine authorities concerned will see their way to using their influence and exercising cooperation to the same end.

---

[68] Handed to Leo D. Sturgeon of the Division of Far Eastern Affairs by the Counselor of the Japanese Embassy, July 19.

611.9417/62

The Chief of the Far Eastern Section, Division of Regional Information, Department of Commerce (Moser), to the Inter-Departmental Subcommittee on Japanese Competition

WASHINGTON, July 22, 1935.

MEMORANDUM

In response to the Chairman's request for suggestions as to what our policy should be in meeting complaints against Japanese competition, I feel that this whole matter is at present in a fluid state, and that it might be best for us to undertake no formal policy, but deal with each case as it arises upon its individual merits. In my judgment, voluntary restrictions or agreements, mutual in one form or another, will ultimately settle the problem; but conditions are not yet ripe for adopting this plan as a policy.

In this connection, I desire to make a few general observations, with respect to present conditions in Japanese industry, that affect our own people:

In Japan, industrialists and exporters appear concerned over the restrictions that have been placed on their export trade in nearly every foreign market. The effects are now being felt and exports in the past few months have shown a very small percentage of advance compared with last year, whereas industrial production has increased beyond current demand, despite curtailment measures. Production costs have advanced and the prices received for manufactured goods are considered too low. Corporate earnings are declining.

In view of these developments, the Japanese appear ready to increase export prices themselves, as a measure of offsetting the antagonism possibly aroused throughout the world by their low-priced goods. Unconfirmed trade reports state that there has recently been organized in Osaka an American Export Cotton Cloth Council whose function will be to control the export of textiles to the United States, limiting the maximum quantity to 5,000,000 yards monthly. It is stated that there will be a corresponding organization in New York from which the Osaka Council will receive instructions as to the quantity of goods to be shipped each month. Export prices are to be fixed according to "just and fair market prices," say reports appearing in the Japanese press.

If American manufacturers are not willing to await the outcome of Japan's efforts to adjust prices and exports, we might advise manufacturers to file with the Tariff Commission complaints against the continued importation of specific commodities. Before any action is taken, however, the manufacturer should be advised of the ill effects of clamping on higher duties in view of the possibility of Japan taking re-

taliatory measures. The action taken against Canada is an example. Canada imposed a special currency dumping duty on imports of Japanese goods. This annoyed the Japanese considerably, especially as Canada enjoys a large favorable balance in its trade with Japan. Japan has decided to increase the duty on imports of lumber and wheat and is considering similar restrictions on imports of other products in which Canada is interested.

In view of the present situation in Japan, it is quite possible that by the time any investigation has been completed, economic laws will have operated to raise the price of Japanese exports and further restrict trade expansion. This advance in prices would tend to restrict the activity of importers in the United States who have been taking advantage of the extremely low price of Japanese products and placing unusually large orders for them. These buyers are said to have been largely responsible for the sudden increase in imports into the United States of textiles from Japan in the early months of this year. Now that their orders have been filled, it is noted that imports of textiles have fallen off. The Japanese export guilds possibly may have a hand in remedying this situation.

C. K. MOSER

611B.9417/54

Memorandum by Mr. Leo D. Sturgeon of the Division of Far Eastern Affairs

[WASHINGTON,] July 26, 1935.

Conversation: Mr. Seijiro Yoshizawa, Counselor, JapaneseEmbassy;
Mr. Tsuneo Hayama, Third Secretary, Japanese Embassy;
Mr. Sayre;
Mr. Sturgeon.

Mr. Yoshizawa, accompanied by Mr. Hayama, called to receive from Mr. Sayre, a reply to certain proposals contained in a memorandum handed to Mr. Sturgeon on July 19, 1935, relative to conversations which have been in progress between the Department and the Japanese Embassy looking toward an equitable apportionment of textile imports into the Philippine Islands.

Mr. Sayre stated that he had asked the Counselor to call in order to inform him of certain conclusions reached in regard to the Japanese memorandum previously submitted, and that he thought it well to repeat, as informative background, the substance of certain statements previously made by Mr. Sayre to the Japanese Ambassador in regard to our general objectives in international trade, and in particular Japanese-American trade.

Mr. Sayre said that he had observed no serious obstacles to a healthy development of trade between the United States and Japan; that in fact this trade continues to be admirably complementary—this country needing Japanese raw silk and Japan requiring American raw cotton. He said he saw no reason why we should not improve the situation, and increase our purchases from Japan, and Japan's purchases from this country. Mr. Sayre continued that we wished to avoid any unnecessary disturbance to our present admirable trade relations, and said that it was with this in mind that the Department had done all in its power to discourage enactment of the taxes upon Japanese silk recently proposed in the Congress. [Mr. Yoshizawa interposed that in the course of a recent call (July 19) the Ambassador had expressed his appreciation of the assistance of the Department in regard to the silk taxes; reports from Japan also indicated appreciation of the Japanese people.] [69]

Some broader objectives of American commercial policy were then stressed by Mr. Sayre. He said that we desired to pull down tariff barriers, and to remove other unnecessary restrictions to a natural development of trade; that constructive steps in this direction were necessary to long-view planning. There was, however, the problem of price demoralization created through sudden entry into trade of low-cost merchandise, but Mr. Sayre thought that informal agreements such as were concluded with Japan in regard to lead pencils, and certain types of rag rugs, provided a method of offsetting price disturbances to trade.

While Japanese-American trade relations are, in the main, satisfactory, Mr. Sayre said, there remained what he had termed certain "focal points" of agitation and possible friction. He stated that it was our desire to remove these focal points, and as we believe the Philippine textile situation falls into that category, it is desired to come to some mutually satisfactory agreement with Japan in regard to the matter.

Mr. Sayre remarked that we do not desire the Philippine textile market for ourselves alone, but are quite willing to share it with the Japanese upon some basis that would stabilize the situation with which we are confronted. He thought an agreement with Japan to share the trade on a 50–50 basis would constitute a fair arrangement, and would be preferable to uncertainties of possible tariff legislation in the Philippines. The Counselor indicated assent with this view.

The proposals for an apportionment of imports of cotton textiles into the Philippines contained in the Japanese memorandum [70] were then discussed in order (See memorandum).

---

[69] Brackets appear in the original.

[70] *Ante*, p. 985.

Tariff Commission data covering imports of cotton textiles into the Philippine Islands for the first two quarters of 1935 (See EA memorandum attached [71]) were shown to the Counselor. Mr. Sayre then stated that our calculations, based on the statistics presented, indicated that the quantitative share of Japan in the trade in question would amount to about 43,000,000 meters, and that we were prepared to offer this figure, and also to allow a limited flexibility (Shipments up to 25,000,000 square meters in half year period) for adjustments of over-shipments and under-shipments. Mr. Sayre stated that the figure offered was based upon the equal share principle; that it was the most we could do; and that we could not survive press and other attacks that the offer of a larger figure would most certainly bring. Owing to flexibility provided for in the first part of the memorandum, it was agreed that the provision for definite allotments of Japanese imports by half years might be dropped.

In regard to the second paragraph of the Japanese memorandum which requests this Government to obtain an understanding from the Philippine Government not to increase the present duty on cotton piece goods, Mr. Sayre said no promise could be given. He said that we mean what we have said to the people of the Philippines in regard to granting independence, and that it was to be expected that they may have ideas of their own on tariff matters. He thought that we should go ahead with efforts to reach agreement on the understanding that if any tariff action by this or the Philippine Government should result in higher duties being placed upon Japanese textiles entering the Philippines, the Japanese would cease to be bound by the agreement.

The provision for an agreement for two years' duration, in the third paragraph of the Japanese memorandum, was agreed upon without the provision for the transferring of allotments.

Mr. Sayre said that the fourth paragraph of the memorandum appeared acceptable, but suggested that its meaning might be somewhat clarified. Mr. Hayama stated that it simply meant that textile interests in Japan will control exports, and that it is desired that the Philippine authorities should cooperate in keeping records of shipments, under the agreement being proposed. When there appeared to be no further questions with regard to the memorandum, the Counselor said that he would discuss the matters covered with the Ambassador, and then report to his Government.

Mr. Sayre said that he had been speaking frankly throughout the conversation, and in keeping with this wished to mention another matter. He stated that there had been some suggestion here that

---

[71] *Infra;* memorandum was prepared in the Office of the Economic Adviser (EA).

the effects of the agreement we have in mind might be annulled by the transfer of Philippine textile orders from Japan to Japanese mills in Shanghai, and that there should be a provision in the agreement to take care of this eventuality. He said he had not favored the suggestion, preferring to regard the arrangement we are working toward as a gentleman's agreement, and to depend upon the good faith of our two Governments with respect to the obligations assumed under the agreement. The Counselor thanked Mr. Sayre for his attitude in the matter and said that he would not fail to make mention of it in the report to his home Government.

In concluding the conversation, Mr. Sayre urged the necessity of concluding an agreement on the Philippine textile situation at the earliest possible date. Failing this, he thought there was real danger of action by the Philippine Legislature, or of agitation in this country. As indication of this possibility, Mr. Sayre read from a press despatch references by Manuel L. Quezon to possible tariff action in the Philippine Legislature. The Counselor agreed that it was important for Japan and the United States to reach an early agreement. The conversation then ended.

611B.9417/54

The Department of State to the Japanese Embassy [72]

The customs statistics of imports of cotton piece goods into the Philippine Islands for the first two quarters of 1935 apparently afford the best available basis for estimating probable consumption in the Philippines during the remainder of 1935 and probably during the next two or three years.

Total imports	Imports from the United States	Imports from Japan	Imports from other sources
	(*in square meters*)		
	First Quarter 1935		
23, 862, 915	8, 261, 665	14, 377, 266	1, 223, 984
	Second Quarter 1935		
21, 960, 207	10, 284, 172	10, 912, 669	763, 366

It is apparent from these figures that

(1) On the basis of Philippine takings of cotton piece goods during the first six months of 1935, the annual consumption would be

[72] Handed to the Counselor of the Japanese Embassy by the Assistant Secretary of State on July 26.

91,646,244 square meters, and, with 3,974,700 square meters imported from "other countries" the total demand for cotton piece goods from the United States and Japan would be 87,671,544 square meters.

(2) On the basis of the figures for the second quarter of 1935, however, total annual consumption in the Philippines would be only 87,840,828 square meters and the total consumption of goods imported from the United States and Japan would be only 84,787,364 square meters.

(3) On the basis of the figures for the second quarter of 1935, the annual rate of importation of cotton piece goods from Japan would be 43,650,676 square meters.

[WASHINGTON,] July 24, 1935.

611B.9417/55

Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs of a Conversation With the Third Secretary of the Japanese Embassy (Hayama)

[WASHINGTON,] August 14, 1935.

After an exchange of greetings, Mr. Hayama stated that he was sorry that the instructions which the Embassy had received in regard to the proposed arrangement covering imports of cotton textiles into the Philippines was not of a favorable character.

He recalled a conversation which Mr. Sayre had in July with the Counselor of the Japanese Embassy [73] and said that he would now present the reply of the Japanese Government, as follows:

1. It had been noted that the allotment of 43,000,000 square meters which had been offered to Japan was based on figures of imports into the Philippine Islands since January 1, 1935. It was the belief of the Japanese Government that figures of such a brief period of time as three or six months did not afford a satisfactory basis for determining the respective shares of various countries in a given market; any arrangement of this character should be arrived at on a basis of the trade for at least one year. The imports into the Philippine Islands of cotton textiles during the three years 1932–1934 showed total annual imports of about 110,000,000 square meters; deducting an average of 10,000,000 square meters originating from countries other than the United States and Japan, there was left an average annual importation of 100,000,000 square meters from the United States and Japan; and applying the 50–50 principle, it was obvious that Japan was entitled to at least 50,000,000 square meters. In any

[73] See memorandum of July 26, p. 987.

event, the Japanese Government found it impossible to accept the proposed allotment of 43,000,000 square meters.

2. The Japanese Government wishes to point out three considerations which would be advantageous to the United States if the Japanese counter proposal of July 19 were accepted, as follows:

(*a*) Imports of Japanese textiles tend to exceed imports of textiles from the United States. The Japanese counter proposal would fix Japanese imports at approximately present figures and would thus operate to safeguard present American participation in the Philippine market;

(*b*) Even if there should be next year any improvement in conditions in the Philippines, Japan would not be in any position to increase its exports, and, therefore, the United States would benefit by the anticipated improvement in economic conditions in the Philippines; and

(*c*) If happily an agreement should be reached on the basis of the Japanese counter proposal, the restriction on exports from Japan would become operative as of July 1, 1935.

3. The Japanese Government could not see its way to recede from the position taken in the second item of its memorandum of July 19, to the effect that the American Government should obtain an undertaking from the Philippine Government that the tariff on cotton textiles would not be increased during the life of the agreement.

I said to Mr. Hayama that I had not acquainted myself fully with what developed during the month of July, when I was absent on leave, and that, therefore, I was not in any position to discuss the Japanese reply, above. I asked Mr. Hayama, however, how the figure of 50,000,000 square meters arrived at by the method of calculation which he had explained to me could be made compatible with the American proposal that the present trade of the Philippine Islands should be shared on a basis of substantial equality. I showed Mr. Hayama the figures of imports into the Philippine Islands during the three years mentioned, and pointed out that Japan's share of the total cotton textile exports of the United States and Japan to the Philippines represented an average of 34%, as against 66% for the United States. I said that statistics of trade over a long period of time were customarily used to arrive at some figure which would equitably represent the share of any one country in a certain market; that, however, we had in this case believed that the 50–50 principle was an equitable principle; and that we proposed that that principle be applied to the present trade and not to a non-existent trade. I further stated that if Japan preferred to resort to figures over a period of time to determine what should be its share of the Philippine market, I felt certain that it would be satisfactory to us.

Mr. Hayama said that apparently there had not been a clear understanding of what our proposal contemplated; that he felt certain that he understood what the United States is desiring to accomplish and that he thought that today's conversation had performed a useful purpose in clarifying this point.

I said that I would report to the Inter-Departmental Committee in regard to today's conversation, and communicate with him again in due course.

611B.9417/56

Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs of a Conversation With the Third Secretary of the Japanese Embassy (Hayama)

[WASHINGTON,] August 16, 1935.

Mr. Hayama called this morning at my request. I told Mr. Hayama that I had a somewhat delicate task to perform, and that I hoped that I would be able to convey to him the precise spirit of friendliness and frankness which motivated the Department in taking the position which I was about to explain to him.

I reviewed briefly the proposal which Mr. Sayre had explained to the Counselor of the Japanese Embassy on the occasion of their last interview on July 19 [*26*]. I said that our proposal had been drawn up with a view to giving as much satisfaction as possible to each of the three parties concerned, that is to say the United States, the Philippine Islands and Japan; that we believed that a satisfactory arrangement would bring benefits in the field of political relations; and that we felt confident that the principle of an equitable division between the United States and Japan of their combined share of the Philippine textile market could best be maintained by dividing such share into two equal portions. After four months of discussion, we had reluctantly concluded that the Japanese had not appreciated the spirit in which our proposal had been formulated; it seemed to us that the Japanese thought we were attempting to drive a hard bargain. After a careful review of the negotiations, and especially after having carefully examined the reply of the Japanese Government as communicated by Mr. Hayama to me on August 14, we had regretfully come to the conclusion that there appeared to be no possibility of reconciling the American and Japanese positions. I stated that we did not, however, wish to give the impression that we were no longer interested in continuing the negotiations. I explained to Mr. Hayama that our proposal was not withdrawn and that it was available for the Japanese to accept whenever they wished to do so.

Mr. Hayama reviewed my statement in order that he might assure himself that he had understood me correctly. He seemed to have understood clearly.

Mr. Hayama then asked whether we could comply with the request of the Japanese Government and obtain an assurance from the Philippine Government that the duty on cotton textiles would not be increased. I replied that we could not comply with this request without running counter to the policy of this Government to refrain from endeavoring to restrict the exercise by the Philippine Government of its constitutional powers.

Mr. Hayama expressed regret that matters had not progressed more favorably. He said that he had not reported to Tokyo in regard to the conversation which we had on August 14, but in reporting the substance of the reply which I had given him today he would point out that we had expressed the opinion that, if Japan were permitted to export 50,000,000 square meters to the Philippines there would remain for the United States a balance of only 35,000,000 to 40,000,000 square meters, which was not in accordance with our basic principle of sharing the trade in equal portions.

As Mr. Hayama was about to leave, I asked that he make clear to his Government that our proposal had not been withdrawn.

611B.9417/69

Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs

[WASHINGTON,] September 20, 1935.

Conversation: The Japanese Ambassador;
Mr. Seijiro Yoshizawa, Counselor of the Japanese Embassy;
Mr. Sayre;
Mr. Dooman.

Mr. Sayre informed the Ambassador that a delegation of American cotton textile manufacturers had arranged to call at the Department next week to inquire in regard to the status of the negotiations with the Japanese Government covering imports into the Philippine Islands of Japanese cotton textiles. He assumed that these manufacturers were anticipating the approaching opening of the Philippine Legislature with a view, if no satisfactory arrangement should have been concluded between the United States and Japan, to requesting that the Legislature increase the duties on cotton textiles. Mr. Sayre felt that the American Government would be placed in a very difficult position if, after the passage of several months since the beginning of the conversations, it could not give American cotton

textile manufacturers some definite information in regard to the negotiations. Mr. Sayre then added that it seemed necessary to be able to say that the negotiations had been concluded, either satisfactorily or otherwise.

The Japanese Ambassador said that he had not failed to explain to his Government fully and accurately the views of the American Government in regard to the matter under discussion. He had recently been informed by the Japanese Government that on August 22 Japanese exporters of cotton textiles to the Philippines had organized themselves into an association with a view to limiting exports to the Philippines in such manner as to give satisfaction to the American Government. He then asked Mr. Yoshizawa to explain the details.

Mr. Yoshizawa presented a table of figures (attached [74]) of exports of Japanese cotton textiles to the United States during the months January–July, 1935. He said that these figures would indicate the "sincerity" of the Japanese exporters in endeavoring to control exports to the United States, and indicated the ability of the newly formed organization similarly to restrict exports to the Philippine Islands. He said further that the association would endeavor to limit exports to one-half of the combined exports of the United States and Japan to the Philippine Islands.

Mr. Sayre remarked that an arrangement of that character would be substantial acceptance of the principles which underlay the American proposal, and that if he could inform American textile manufacturers of the action taken in Japan he felt that he had a good opportunity to control the situation in the United States in regard to a demand for tariff action in the Philippines against Japanese goods. He also thought that information to that effect would have a very good effect upon the demand for increased protection in the United States against Japanese cotton textiles.

Mr. Dooman prepared a draft statement (attached [75]) for possible issuance by the Department. The draft was examined by Mr. Yoshizawa and by the Japanese Ambassador, and Mr. Yoshizawa expressed the feeling that it might not be entirely satisfactory to the Japanese Government, for the reason that no reference was made to the question of possible action by the Philippine Legislature to increase the duty on cotton textiles. The Japanese Ambassador suggested that the interpolation of the phrase, after the words "market conditions in the Philippine Islands", "and so long as existing duties on cotton textiles are not raised" would meet that difficulty.

---

[74] Not printed.
[75] *Infra.*

After some further discussion, the Japanese Ambassador stated that he would refer the text of the draft statement to the Japanese Government with a request that the Japanese Government authorize the issuance of the statement by the Department.

611B.9417/69

Draft Statement Prepared by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs [76]

The American Government has been informed by the Japanese Government that there has been recently organized in Japan an association of exporters to the Philippine Islands of cotton textiles, and that the association, with a view to stabilizing cotton textile market conditions in the Philippine Islands, and so long as existing duties on cotton textiles are not raised, will endeavor to limit exports from Japan to an amount not greater than one-half the combined exports of the United States and Japan to the Philippine Islands.

611B.9417/70

Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs

[WASHINGTON,] September 23, 1935.

Conversation: Mr. Seijiro Yoshizawa, Counselor of the Japanese Embassy;
Mr. Sayre;
Mr. Dooman.

Mr. Yoshizawa stated that the Ambassador, following his conversation on September 20 with Mr. Sayre, had telegraphed to the Foreign Office at Tokyo the text of the draft statement intended for issuance by the Department in regard to the arrangement to cover exports of Japanese cotton textiles to the Philippine Islands, and that the Foreign Office had agreed to the publication of the statement amended by the addition of the words "in 1934".

Mr. Sayre remarked that the proposed change would fundamentally alter the character of the arrangement; that it brought the discussions back to the position of five months ago; and that publication of the statement as revised would not be helpful to the American Government in meeting the situation created by the endeavor of American textile manufacturers to have increased the Philippine tariff on cotton textiles. He again referred to the opening of the Philippine Legislature, and he said that he had hoped that, when representatives

---

[76] Given to the Japanese Ambassador during the conversation of September 20 for transmission to his Government for approval.

of the American textile manufacturers called on him, which they would in a day or so, he would be in position to inform them that the Japanese Government had agreed to keep exports to the Philippine Islands down to a volume satisfactory to us. He felt that he could not but conclude from the statement made to him by Mr. Yoshizawa that negotiations had finally broken down, and he would feel obliged so to inform the representatives of the textile industry. He asked Mr. Yoshizawa whether the statement made by Mr. Yoshizawa represented the last word of the Japanese Government. Mr. Yoshizawa replied that it was his understanding that the statement was the last word of the Japanese Government.

There then followed a brief discussion in which reference was made to the fact that the American Government had endeavored from the beginning to give effect to the principle of "share and share alike".

Mr. Sayre stated that the change in the draft statement proposed by the Japanese Government would be unacceptable, but before giving the Japanese Embassy a conclusive reply he wished to study the trade figures a little more closely, and that following such study he would invite Mr. Yoshizawa to call again at the Department.

611B.9417/62a : Telegram

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

WASHINGTON, September 23, 1935—7 p. m.

148. Please call at your early convenience on the Minister for Foreign Affairs and read to him a message from me, as follows:

"The Japanese Government has on several occasions requested that the American Government take no action looking toward the placing of restrictions upon the importation of Japanese commodities without first having consulted the Japanese Government and thus affording the Japanese Government an opportunity to adjust by voluntary action conditions calling for remedy. The American Government has followed this practice on several occasions, particularly in respect to the Philippine Islands, in which case it has sought the cooperation of the Japanese Government in order to stabilize competition in the Philippine cotton textile market. For 5 months we have earnestly endeavored to conclude within such limits as are practicable some arrangement which would be mutually satisfactory to both the Japanese and the American Governments, and we had thought, in view of the information conveyed to us by the Japanese Ambassador on September 20, that essential agreement had been reached. It is, therefore, a keen disappointment to me now to learn from the Japanese Ambassador that the Japanese Government has taken a position which if maintained would appear to preclude the possibility of adjusting conditions in regard to the Philippine textile market by voluntary and cooperative action.

I earnestly hope that Your Excellency will be so good as to give this matter your earnest consideration, to the end that the extended negotiations will be brought to a successful and prompt conclusion, thus demonstrating the determination of our respective Governments to solve in a cooperative and friendly manner problems of mutual concern."

Please orally inform the Minister for Foreign Affairs that urgency is particularly necessary in order that we may be able to announce the outcome of our negotiations. We are reluctant to believe that the suggested statement handed us today by the Japanese Ambassador is a final one and would greatly appreciate a prompt clarification on this point.

It is suggested that you find an opportunity to discuss the matter with Kurusu before calling on the Minister for Foreign Affairs.

HULL

611B.9417/63 : Telegram

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

TOKYO, September 26, 1935—5 p.m.
[Received September 26—6 : 12 a.m.]

183. Department's 148, September 23, 7 p.m. The Minister for Foreign Affairs told me today that the figure given by Saito was not final. He said that the Foreign Office would consult with the Commerce Department and with the Export Association. This would take a few days, and the Embassy in Washington would be instructed again.

The Japanese seem to be apprehensive that the Philippine Government may raise the tariff, or that if Japanese exports to the Philippines are cut to a definite figure it might well happen that there might be an increased demand which would fall to some third country not affected by the agreement. However, they are prepared apparently to accept a definite figure. My guess is that it would be about 46,000,000 square meters, and certainly not less than 45,000,000. They would like some definite assurance, however, that the Philippine cotton textile tariff will not be raised, so far as it lies in the power of the United States to prevent it.

NEVILLE

611B.9417/63 : Telegram

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

WASHINGTON, September 27, 1935—7 p.m.

154. Your 183, September 26, 5 p.m.

1. On September 26 the Japanese Embassy informed the Depart-

ment that the Japanese Government would endeaver to obtain the assent of the Japanese cotton textile interests to an arrangement whereby Japanese annual cotton textile exports to the Philippines would not exceed 45,000,000 square meters so long as the Philippine textile duties are not increased. The Embassy added that the Japanese Government desired that this Government give an undertaking to refrain, so long as Japanese textile exports did not exceed the above-stated figure, from taking any action looking toward the increase of Philippine cotton textile duties.

2. The Japanese proposal requires clarification in regard to a few points, but we are disposed to give it favorable consideration.

3. The Department will expect to communicate with you when a decision has been reached.

HULL

611B.9417/72

Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs

[WASHINGTON,] September 30, 1935.

Conversation: The Japanese Ambassador;
Mr. Seijiro Yoshizawa, Counselor of the Japanese Embassy;
Mr. Sayre;
Mr. Dooman.

Mr. Sayre stated that throughout the extended negotiations which had been carried on between the Department and the Japanese Embassy, the American Government has been endeavoring to give effect to the principle that the United States and Japan should participate equally in the Philippine textile market. Careful consideration has been given to the proposal of the Japanese Government that the volume of Japanese exports to the Philippine Islands be limited to 45,000,000 square meters, and in the light of the most recent figures the American Government believed that that figure would operate to give both the United States and Japan a fair and equitable share of the Philippine market. Mr. Sayre stated that the American Government appreciates the cooperative spirit displayed by the Japanese Government throughout the negotiations, and that it is glad to receive this evidence of the Japanese Government's intention to join with the United States in endeavoring to stabilize commercial relations between countries.

Mr. Sayre stated that it would be the desire of the American Government, in entering into a gentlemen's agreement with Japan, to conclude the arrangement in the form of an unilateral declaration by each party.

Mr. Sayre then referred to the desire of the Japanese Government that the American Government refrain from taking any action calculated to persuade the Philippine Government to increase its duties on cotton piece goods so long as imports of Japanese cotton piece goods do not exceed annually 45,000,000 square meters. He stated that the American Government would be prepared to give such an undertaking, but that in doing so it desired that the Japanese Government bear in mind two points, as follows:

a. The present Administration confidently expects that it will be re-elected to office after January 1, 1937, but it is unable to give any undertaking which would be binding upon the next Administration;

b. A trade conference is to be held between the United States and the Philippine Islands next year, and it is possible that the question of an increase in the tariff on cotton piece goods may arise. In any event it is unlikely that any such increase would come into operation during the life of the present gentlemen's agreement.

Mr. Sayre then continued to say that it was the opinion of the American Government that the proposed arrangement should begin as of July 1, 1935. The conversations were initiated in April of this year, it had been proposed by the American Government that the arrangement if made should come into effect as of May 1. Mr. Sayre pointed out that the Japanese desired that it begin as of July 1, and although the American Government had not accepted this proposal it was giving it favorable consideration. Mr. Sayre believed that in view of the large shipments which were made during the past summer from Japan in anticipation of the gentlemen's agreement being concluded, the arrangement should come into effect as of July 1.

Mr. Yoshizawa stated that although the Japanese Government had some time ago indicated its preference for July 1, the association for controlling the trade to the Philippines had been organized on August 27, and it seemed appropriate that the arrangement should come into effect on the date that such association was formed.

The Japanese Ambassador asked Mr. Sayre what the attitude of the American Government was in regard to the Japanese proposal that transference of 10% of the semiannual and annual allotments might be made. Mr. Sayre stated that the American Government had no objection to such an arrangement, but that he did not feel disposed to concede this point if the Japanese insisted upon August 27 as the date on which the arrangement should begin. The Japanese Ambassador then suggested that he would urge his Government to agree to August 1 if the American Government were prepared to accept the Japanese proposal in regard to transference of 10% of the allotments. Mr. Sayre replied that such an arrangement would be acceptable.

In regard to exports from Japanese cotton mills in China, Mr. Sayre stated that that would not come within the four corners of this ar-

rangement. On the other hand it is our understanding that Japanese piece goods transshipped at Hong Kong and other points would be included in the Japanese allotment. The Japanese Ambassador and Mr. Yoshizawa stated that they concurred in that understanding.

Mr. Sayre added as a final point that it would be our understanding that the figures of imports compiled by the Philippine Customs would be used in connection with the carrying out of this arrangement. Mr. Yoshizawa agreed.

After some review of the previous conversation, the Japanese Ambassador stated that there appeared to be complete agreement between the two Governments on all points except in regard to the question of the date on which the arrangement would begin. He undertook to report to his Government, and he hoped that he would be in position in a few days to make a reply.

611B.9417/73

Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs of a Conversation With the Counselor of the Japanese Embassy (Yoshizawa)

[WASHINGTON,] October 2, 1935.

Mr. Yoshizawa stated that the Embassy had received instructions from the Foreign Office at Tokyo to present to the Department certain views in regard to the proposed Philippine textile arrangement, as follows:

1. The Japanese Government is much distressed to learn that this Administration is unable to give any undertaking to extend beyond January 1, 1937, to refrain from encouraging the Philippine Government to raise the duty on textiles. The Japanese Government feels that an undertaking which would not extend as long as the arrangement would give Japanese textile interests cause for apprehension. It is hoped, therefore, that the American Government would give an undertaking to be effective during the life of the agreement.

2. With reference to the statement made by Mr. Sayre to the Japanese Ambassador on September 30 that it would be necessary for the American Government to be free to discuss with the Philippine Government the question of cotton textiles at the conference to be held next year, the Japanese Government had obtained the agreement of the Japanese cotton interests to the proposed arrangement by stressing the point that an arrangement, if established, would operate to exclude cotton textiles as a subject for negotiation between the United States and the Philippines. The Japanese Government wished to know whether it would be feasible to leave the question of cotton textiles out of the agenda for the United States–Philippine conference.

3. The Japanese Government will do its best to prevent shipments to the Philippine Islands of piece goods produced by the Japanese

mills in China and to prevent transshipment of Japanese piece goods at Hong Kong and other points to the Philippine Islands. The Japanese Government will, however, expect to receive the cooperation of the Philippine Customs. The Japanese Government would desire, however, that this matter be not set forth in the arrangement.

4. Subject to the above three points, the Japanese Government would be prepared to enter into an arrangement for a period of two years to be effective as of August 1, 1935.

Mr. Dooman stated that he was somewhat concerned by the raising of the second point, for the reason that it had always been the policy of this Government to keep itself free to discuss with the Philippine Islands the establishment of some commercial arrangement to be effective at some time after the conclusion of the proposed gentlemen's agreement. Mr. Yoshizawa stated in that connection that he was authorized to say to Mr. Dooman that the Japanese Government looked forward to the gentlemen's agreement being extended if it should prove to yield beneficial results—that it envisaged the working out of some long-term arrangement. The possibility of a long-term arrangement would, in Mr. Yoshizawa's opinion, be seriously impaired if the question of increasing duties on Japanese cotton textiles were raised at the conference next year.

Mr. Dooman stated that he could categorically assure Mr. Yoshizawa that the American Government does not at this time intend to ask the Philippine Government at the conference to raise the duties, but that further than that he could not go without presenting the question to Mr. Sayre. He promised to bring the matter to Mr. Sayre's attention as soon as possible.

611B.9417/75

Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs

[WASHINGTON,] October 3, 1935.

Conversation: Mr. Seijiro Yoshizawa, Counselor of the Japanese Embassy;
Mr. Sayre;
Mr. Dooman.

Mr. Sayre stated to Mr. Yoshizawa that he understood, in the light of a conversation between Mr. Yoshizawa and Mr. Dooman on October 2, that the Japanese Government would be agreeable to entering into a gentlemen's agreement for a period of two years beginning as of August 1, 1935, subject to clarification of three points, as follows:

1. The period of duration of the undertaking of the American Government to refrain from approaching the Philippine Government with a view to an increase in the Philippine textile tariff:

Mr. Sayre said that the Administration would come to an end on December 31, 1936, and that the present Administration could not give any informal undertaking which would be binding on the next administration. He added that the present Administration confidently expects to be returned to office by the next presidential election, and in that connection he referred to the view expressed by a certain political observer that there is no doubt that the present Administration will be re-elected. Mr. Sayre stated that even if that expectation were not fulfilled it seemed exceedingly unlikely that the new administration would, for the few months remaining of the agreement after January 1, 1937, take action contrary to the terms of the arrangement.

2. The possibility of undertaking to eliminate cotton textiles as a topic of discussion at the forthcoming United States-Philippine economic conference:

Mr. Sayre stated that this matter had been given careful consideration, and that the conclusion had been reached that it would be impossible to give the undertaking requested by the Japanese Government for the reason that the Philippine Government had as much right as the American Government to bring up topics for discussion at the conference under reference. He was, moreover, of the opinion that it would be greatly to the advantage of Japan if the question of cotton textiles were discussed at a fact-finding conference of representatives of the American and Philippine Governments than if it were made the subject of political agitation. Mr. Sayre elaborated this view at considerable length, and asked whether Mr. Yoshizawa understood Mr. Sayre's line of reasoning. Mr. Yoshizawa apparently had not fully understood Mr. Sayre, and Mr. Sayre thereupon dictated and handed to Mr. Yoshizawa a précis of his statements on this point, as follows:

"I have also discussed with Mr. Sayre the question of a possible undertaking by his Government that the question of the importation of Japanese textiles into the Philippines shall not be discussed in the coming Philippine-American trade conference. Mr. Sayre replied that he spoke of this matter in his interview with the Ambassador only out of the abundance of caution to insure against any possible misunderstanding. Mr. Sayre said that it is quite impossible at this time to determine whether the matter of textiles will be discussed at the coming conference or not, and that inasmuch as the Philippine conferees presumably would have an equal power with the American conferees the American Government found it impossible to say what might be included in the discussion. On the other hand, Mr. Sayre said that he could not but feel that if the question of textiles should be discussed in the conference it would seem to be advantageous from the viewpoint of the Japanese Government. If the two-year arrangement proves satisfactory to both Governments, it would seem to be to the manifest advantage of the Japanese Government that agreement

should be reached in the Philippine trade conference in 1936 to prolong such an arrangement with whatever modifications seem desirable, and that if this should be done it would preclude the chance of political pressure being brought to bear upon the Philippine Government in 1937 by textile interests or others to prevent the prolongation of the agreement and to secure the exclusion of Japanese textiles from the Philippines. In other words, although Mr. Sayre could give no assurance as to what might be discussed at the Philippine trade conference, he felt that if textiles should be included it would seem to be to the manifest advantage of Japan."

Mr. Yoshizawa examined the précis and stated that be believed that his Government would fall in with Mr. Sayre's views.

3. Cooperation of the Philippine Customs with efforts of the Japanese Government to restrict shipments from Japanese mills in China and transshipments from Hong Kong and other points:

Mr. Sayre stated that the Philippine Government had already expressed willingness to cooperate and it had requested, to that end, that the Treasury Department inform the Philippine Government in regard to methods for the collection and tabulation of statistical data. Mr. Sayre added that he was in complete agreement with the view of the Japanese Government that the regulation of shipments from China and of transshipment from Japan be not included within the terms of the agreement.

Mr. Yoshizawa stated that he would telegraph to his Government the substance of statements made by Mr. Sayre, and he confidently expected that he would be in position within the next few days to inform the Department that the Japanese Government would be prepared to enter into a gentlemen's agreement for a period of two years beginning as of August 1, 1935.

611.9417/57

The Secretary of State to the Secretary of Commerce (Roper)

WASHINGTON, October 11, 1935.

MY DEAR MR. SECRETARY: I have your letter of October 2, 1935, enclosing a copy of a letter of September 7, 1935,[77] from Mr. G. H. Dorr, President of the Cotton Textile Institute, addressed to the President, discussing the possibility of limiting importations of cotton textiles into the United States from Japan, either through agreement with the Japanese Government or through executive action authorized by the amended Agricultural Adjustment Act. I have, also, the copy which you enclosed of the letter you have received from the Honorable Henry A. Wallace, Secretary of Agriculture,[78] ex-

[77] Neither printed.
[78] Not printed.

pressing the opinion that a voluntary agreement with Japan appears to be the most favorable means of solving the problem discussed in Mr. Dorr's letter.

I appreciate the opportunity you have given me of seeing these letters and of offering my comments on this subject.

I agree heartily with the opinion expressed by Secretary Wallace which I believe is directly in line with the conclusions reached by the special Cabinet Committee.[79] I strongly believe that, before we consider taking any form of unilateral action which would increase the barriers to imports of cotton goods from Japan, we should explore the possibility of securing a desirable solution of this problem through a friendly agreement with the Japanese.

You will remember that in our telephone conversation of the other day we agreed that it would be helpful for the Executive Commercial Policy Committee to give attention to the problems involved in seeking this form of action, and I understand that the chairman of this committee, Mr. Francis B. Sayre, brought the matter before the Committee at its session on October 4, and that after a brief discussion a subcommittee was appointed to make a survey of the problem and report back to the Committee at its meeting on October 11. I am informed that this subcommittee consists of Mr. A. M. Fox, Director of Research of the United States Tariff Commission, Chairman, Mr. Claudius T. Murchison, Director of the Bureau of Foreign and Domestic Commerce, and Mr. Eugene H. Dooman of the Far Eastern Section of the Department of State.

For some months, officers of this Department, advised by an interdepartmental committee, have been engaged in conversations with representatives of the Japanese Government relative to the possibility of an arrangement for voluntary control by the Japanese of importations into the Philippines of Japanese cotton textiles. These conversations have now been brought to a successful conclusion and I believe that if such is the President's desire, it will be possible to proceed in the very near future with similar conversations regarding Japanese shipments of cotton textiles to the American market.

I wonder if you agree with me that as soon as the Executive Committee on Commercial Policy shall have reached its conclusions, the President's Cabinet Committee on the cotton textile industry will be in a position to take up the matter with the President, requesting authorization to initiate conversations with the Japanese along the lines recommended in the committee's report? If the President favors this

---

[79] The Committee's report, dated August 20, was transmitted to Congress by President Roosevelt on August 21 (*Congressional Record*, vol. 79, pt. 13, pp. 13980, 14011); for text of report, see Senate Document No. 126, 74th Cong., 1st sess.

action, Mr. Dorr might then be informed of the determination of this Government to proceed as rapidly as possible with an exploration of the possibility of securing a satisfactory agreement with the Japanese providing for voluntary regulation by them of the volume and terms under which imports of cotton cloth and other cotton products shall enter the United States from Japan. At the same time Mr. Dorr might be informed that in connection with conversations with the Japanese on this subject we would appreciate an opportunity to discuss the problems involved with representatives of the cotton textile industry. Reference might be made to the fact that a committee of cotton textile leaders, which I understand was chosen by Mr. Dorr, visited this Department on October 3 for a conference with Mr. Sayre, and was helpful in its discussion and suggestions both as regards an agreement with the Japanese respecting the Philippine market and a possible agreement affecting the American market.

Sincerely yours, CORDELL HULL

611B.9417/84

Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs

[WASHINGTON,] October 11, 1935.

Conversation: The Japanese Ambassador;
Mr. Seijiro Yoshizawa, Counselor of the Japanese Embassy;
Mr. Sayre;
Mr. Veatch;
Mr. Dooman.

After the memorandum of conversation [80] setting forth the terms of the arrangement in regard to imports of Japanese cotton textiles into the Philippine Islands had been read, Mr. Sayre stated to the Japanese Ambassador that he believed that it had been made clear to the Japanese that the arrangement which had been formulated did not in any way commit the Philippine Government. Mr. Sayre stated that in giving the Japanese Ambassador the assurance that the American Government does not contemplate the taking of action directed toward securing an increase in the Philippine duties on cotton piece goods, it was not intended that the Philippine Government should be regarded in any way as being a part of the American Government, and he wished to make it clear that in the course of their various conversations nothing said by either the Japanese Ambassador or Mr. Sayre was intended to or could preclude in any way full liberty

[80] *Infra.*

of action on the part of the Philippine Government. The Japanese Ambassador replied that he clearly appreciated these facts and that the arrangement that had been formulated would be in no way binding on the Philippine Government.

Mr. Sayre and the Japanese Ambassador then initialed duplicate copies of the attached memorandum of conversation, one copy of which was handed by Mr. Sayre to the Japanese Ambassador.

Mr. Sayre stated that it was extremely gratifying to him that the two Governments had been able to adjust this problem in a friendly manner. The Japanese Ambassador concurred.

Mr. Sayre then raised the question of making public the terms of the arrangement, pointing out the desirability of proceeding with the matter as rapidly as possible. Mr. Yoshizawa explained that the Embassy had been instructed to inform the Department that the Japanese Government did not expect that any public announcement would be made. He assumed that the Japanese Government had erroneously supposed that the memorandum of conversation which had just been initialed would be made public. The Embassy was taking steps to correct the Foreign Office in that regard, and he hoped that a reply would be received tomorrow indicating assent to there being given out by the Department some public statement.

After some further discussion in regard to this matter, it was arranged that the Department would issue a press release for publication in the papers of Sunday morning, October 13, and that the Japanese Embassy, in so notifying the Foreign Office, would request that no statement be issued in Japan for publication earlier than in the papers of the same date.

The conversation terminated with the exchanges of congratulation upon the successful conclusion of the negotiations.

611B.9417/83

Memorandum Initialed by the Assistant Secretary of State (Sayre) and the Japanese Ambassador (Saito)

[WASHINGTON,] October 11, 1935.

Conversation: The Japanese Ambassador;
Mr. Seijiro Yoshizawa, Counselor of the Japanese Embassy;
Mr. Sayre;
Mr. Veatch;
Mr. Dooman.

The Japanese Ambassador, accompanied by Mr. Yoshizawa, Counselor of the Embassy, called, on October 11, 1935, on Mr. Sayre, Assistant Secretary of State.

The Japanese Ambassador stated that he was glad to inform the American Government that the recently formed Association of Japanese Exporters of Cotton Piece Goods to the Philippine Islands will, for a period of two years beginning as of August 1, 1935, and provided there is no increase in the Philippine tariff on cotton piece goods, voluntarily limit imports of Japanese cotton piece goods into the Philippine Islands to a figure not to exceed 45,000,000 square meters annually; with the proviso that 10 percent of such annual figure should be flexible, that is to say, if the importations during the first year exceed or are less than the amount of 45,000,000 square meters such excess or balance (in no case to exceed 4,500,000 square meters) shall be subtracted from or added to the allotment for the second year, and further that the semi-annual volume of imports will not exceed 26,000,000 square meters in any one semester. The Ambassador further stated that the statistics of imports compiled by the Philippine Customs will be used as the basis of determining the volume of imports of Japanese cotton piece goods.

The Assistant Secretary of State stated that he was gratified to receive the information from the Ambassador that the Association of Japanese Exporters of Cotton Piece Goods to the Philippine Islands was prepared to regulate exports of Japanese cotton piece goods to the Philippine Islands. Mr. Sayre stated on behalf of the Secretary of State that so long as annual imports into the Philippine Islands of Japanese cotton piece goods do not exceed 45,000,000 square meters, the American Government will take no action directed toward securing an increase in the Philippine tariff rates on cotton piece goods to take effect prior to August 1, 1937, provided, however, that this statement does not entail a commitment of succeeding administrations of the American Government. The Japanese Ambassador then stated that, in the event that the next administration of the American Government should deem it necessary to approach the Philippine Government with a view to an increase of Philippine tariff rates on cotton piece goods, Japanese exporters would expect to determine, in the light of the then existing circumstances, whether or not they would continue to regulate their shipments to the Philippine Islands.

611B.9417/81

Press Release Issued by the Department of State on October 12, 1935

The Japanese Ambassador called on Mr. Francis B. Sayre, Assistant Secretary of State, on October 11, 1935, and stated that the recently formed Association of Japanese Exporters of Cotton Piece Goods to the Philippine Islands will, for a period of two years beginning as of August 1, 1935, and provided there is no increase in the Philippine tariff on cotton piece goods, voluntarily limit imports of

Japanese cotton piece goods into the Philippine Islands to a figure not to exceed 45,000,000 square meters annually.

This voluntary action on the part of the Japanese textile exporters should materially improve the position of American cotton textiles in the Philippines since it will reduce substantially the quantity of Japanese textiles supplied to that market. The maximum established for Japanese shipments to the Philippines during each of the next two years, 45,000,000 square meters, can be compared with 59,790,000 square meters shipped during the twelve months preceding September of this year, and with a total of 56,356,000 square meters during the calendar year 1934.

The Islands are now importing cotton goods at the rate of more than 95,000,000 square meters annually, not more than 5 percent of this total coming from countries other than the United States and Japan. On a value basis, the United States will undoubtedly supply a much larger proportion than Japan during the next two years. It is anticipated, on the basis of available figures, that the value of imports from the United States under the new arrangement will be approximately twice the value of imports from Japan.

The Japanese cotton textile interests, taking cognizance of the recent agitation, both in the United States and in the Philippine Islands, for increases in the cotton textile schedule of the Philippine tariff, are voluntarily taking action regulating their shipments to the Philippine Islands in an effort to stabilize that market. It is believed that a careful consideration of all the factors involved will indicate that this action should prove beneficial to the cotton textile industries of both the United States and Japan without prejudicing the interests of the people of the Philippine Islands or in any way obligating the Philippine Government.

The Governments of Japan and the United States have found themselves in entire agreement upon this method of handling a situation which might otherwise lead to increasing conflict between their competing commercial interests. By their joint efforts to secure mutually satisfactory adjustments the United States and Japan demonstrate their ability to solve the various economic problems which are of concern to the two peoples in a way that will conserve and safeguard the legitimate interests of each.

Textile markets in the Philippines, as elsewhere, are subject to seasonal variations and to various unpredictable influences. It is provided, therefore, that 10 percent of the maximum annual figure shall be flexible, that is to say, if importations into the Philippines of Japanese cotton textile goods during the first year exceed or are less than the amount of 45,000,000 square meters such excess or balance

(in no case to exceed 4,500,000 square meters) shall be subtracted from or added to the allotment for the second year, and further that the semi-annual volume of imports will not exceed 26,000,000 square meters in any one semester.

Imports into the Philippines of cotton goods from Japan, as well as from other sources, may vary to some extent month by month, but the voluntary annual limitation established by the Japanese exporters will permit average monthly shipments during the next two years of only 3,750,000 square meters in contrast to an average of 5,000,000 square meters per month shipped during the year ending September 1, 1935.

In the calendar year 1934, Japan supplied, on a quantity basis, 52.7 percent of the Philippine market for cotton textiles, while American exporters supplied 40.5 percent. Consumption in the Philippines in the present year (1935) has fallen off to some extent, the decrease being due particularly to the restriction of sugar production. Importations of Japanese cotton textiles increased, however, in the first eight months of this year, at the expense of American and European textiles, supplying in quantity 57.7 percent of the market as against 37.7 percent for American exports.

American textiles are sold free of duty in the Philippines, whereas imports from other sources pay a substantial duty. As a result of this protection and of consumer preference and other market factors, the value of American cotton cloth sold in the Philippines has been considerably greater than that sold by Japan, even when the quantity sold has been less. During the first eight months of 1935, the value per square meter of American goods imported into the Philippines was twice as great as that of Japanese cloth, the total value of these imports from the United States during that period being $3,277,000 as compared with a total value of $2,456,000 for imports from Japan, while the quantity imported from the United States was 24,790,000 square meters as compared with 37,973,000 square meters from Japan.

Prior to 1934, Japan supplied a much smaller share of the Philippine market for these products than did the United States, the Japanese furnishing 27 percent in the four years 1930–1933, as compared with 57 percent from the United States. The arrangement announced today represents, therefore, an adjustment between the position of Japan in the Philippine textile market in the last two years and that held by her in preceding years.

611.9417/57 Suppl.

The Secretary of State to the Secretary of Commerce (Roper)

WASHINGTON, October 23, 1935.

MY DEAR MR. SECRETARY: With further reference to the Cabinet Committee's recommendation respecting importations into the United States from Japan of textile products which have been the subject of complaint, I can now supplement my letter of October 11.

I am informed that the Executive Committee on Commercial Policy, meeting on October 11, gave consideration to this matter. It was the feeling of the Committee that the element of time is important and that if the President desires action along the line of the Cabinet Committee's recommendation the matter should be taken up with the Japanese at the earliest possible date. The Commercial Policy Committee is having a study made of the list of items which might be covered in the discussions with the Japanese and of the most desirable procedure for conducting such negotiations. Although no definite decision has been reached with respect to these matters, the Executive Committee on Commercial Policy has requested that I offer for your consideration the suggestion that a letter be sent to the President as soon as possible, either signed by the four Cabinet members constituting the Cabinet Committee on Textiles, or by you on behalf of the Committee. It is the opinion of the Commercial Policy Committee that such a letter should seek to ascertain whether the President favors the course of action recommended in the Cabinet Committee's report of August 20, 1935,[81] and should urge early initiation of conversations with the Japanese, in the event this course of action is to be followed, because of the length of time required to conduct negotiations of this nature.

The Honorable Henry A. Wallace, Secretary of Agriculture, suggested at the meeting of the Commercial Policy Committee that in addition to the letter to the President it would be advisable to discuss the matter with the President in person.

The Executive Committee on Commercial Policy has given some thought to the preparation of a letter to the President along the lines discussed above, and I attach hereto the suggested draft of such a letter,[82] for your consideration.

Sincerely yours, CORDELL HULL

---

[81] Senate Document No. 126, 74th Cong., 1st sess.

[82] Draft not printed; for text of letter sent to President Roosevelt, see p. 1018.

611.946 Rag Rugs/108

The Department of State to the Japanese Embassy

We are pleased to say that a survey that has recently been made of the domestic cotton rug industry and of the cotton rug market in the United States indicates, although the improvements have not come up to expectations, that there have been in recent months certain favorable trends. We are, therefore, prepared to agree to substantial increases in the volume of shipments of chenille and hit-and-miss rugs.

It has been noted that there are differences in the figures of exports from Japan of cotton rugs as compiled by the American Consulate at Kobe on the basis of consular invoices and as compiled by the Japanese Association of Cotton Rug Exporters. In order to eliminate the possibility of such differences arising in the future, it is desired that the basis of calculation of shipments imported into the United States on and after June 1, 1935, be changed from "exports from Japan" to "imports for consumption into the United States" as determined by United States customs figures.

It is noted that the actual shipments of "all other" rugs have been substantially under the agreed upon maximum, as revised in May 1935 to 3,250,000 square yards. It is assumed that the Japanese exporters would be agreeable to some reduction in the maximum figure.

If the changes above suggested are acceptable to the Japanese, we are prepared to agree to a maximum of 850,000 square yards in the case of chenille rugs and of a maximum of 3,750,000 square yards in the case of hit-and-miss rag rugs for the twelve months beginning as of June 1, 1935.

[WASHINGTON,] October 28, 1935.

611B.9417/86 : Telegram

Messrs. Dorfman and Waring of the United States Tariff Commission to the Secretary of State [83]

MANILA [undated].

[Received October 28, 1935—10:05 a.m.[84]]

Copies to Ryder and Fox, Tariff Commission. Text of Japanese textile agreement has raised question in local circles whether annual quota 45,000,000 square meters was intended to include Japanese textiles transshipped through Hong Kong and other ports. American textile interests believed Japanese evading obligations as approxi-

[83] Text also transmitted to the War Department by the Governor General of the Philippines in his telegram No. 526, October 29.

[84] Telegram in two sections.

mately 200,000 square meters Japanese cotton cloth has been imported from Hong Kong by Mitsui Company since Japanese agreement consummated. Japanese Consul General has not received official Tokyo text of agreement but ventured personal opinion that agreement does not extend to Philippine imports of Japanese cloth from ports outside Japan. Mitsui manager explained recent importations of Japanese cloth from Hong Kong by his firm were contracted prior signing Japanese agreement. His firm expects additional small shipments during next 3 months under same contract after which no further importations Japanese cotton will be made by his firm except directly from Japan. Mitsui has regularly imported through Hong Kong during past several years hence recent importations are not innovation.

Philippine import figures indicate no cotton cloth imports from Hong Kong during past years. Customs explains that all Philippine import data are classified on basis country of origin rather than country from which goods are imported. Philippine statistics therefore have consistently classified as imports from Japan all imports of Japanese goods whether coming directly or indirectly from Japan.

If Japan has undertaken to limit sales on basis of 45,000,000 square meters of Philippine imports as recorded by Philippine customs then quota will embrace transshipped as well as directly shipped Japanese goods. American textile interests claim sales resistance because local dealers believe Japanese agreement will not limit Philippine purchases Japanese goods in Hong Kong. Press release by State Department clarifying price [*precise*] understanding with Japan concerning above matter may be desirable.

DORFMAN
WARING

611B.9417/90a

The Assistant Secretary of State (Sayre) to the Appointed High Commissioner in the Philippines (Murphy) [85]

WASHINGTON, October 29, 1935.

MY DEAR MR. MURPHY: It gives me pleasure to address you for the first time as High Commissioner of this Government to the Philippine Islands. I should like to add also that it is my sincere hope that the claims upon you of American politics, as strong and as important as I know them to be, will not end too soon your service in this post. We need you as the representative of this Government in the Islands, at least for a sufficient period of time to establish a firm basis for the

[85] The Philippine Commonwealth Government was inaugurated November 15, when the Governor General became High Commissioner.

relations between the United States and the new government of the Philippines. After many months of negotiations we were able, as you know, to secure an agreement with the Japanese providing for a voluntary restriction by Japanese exporters of importations into the Philippine Islands of Japanese cotton piece goods. I am enclosing for your information a copy of the memorandum, initialed by the Japanese Ambassador and myself, of our conversation setting forth this agreement,[86] a copy of an office memorandum of other points covered in the conversation,[87] and a copy of the press release of this Department with respect to the Japanese action.[88]

You will note particularly the clear understanding between the Ambassador and myself, set forth in the memorandum initialed by Mr. Dooman of our Division of Far Eastern Affairs, that the arrangement which had been formulated did not in any way commit the Philippine Government and that nothing said in the various conversations between the Ambassador and myself was intended to or could preclude in any way full liberty of action on the part of the Philippine Government. Although these two memoranda must, of course, be held in confidence, you may wish to apprise President Quezon of this clear understanding.

You will note also that the voluntary regulation by the Japanese Exporters Association covers all importations into the Philippines of Japanese cotton piece goods. This wording was selected in preference to wording covering merely importations "from Japan", because of the understanding that the Japanese will have no intention of seeking to evade the clear intent of this voluntary arrangement by transshipping Japanese goods through Hong Kong or any other port.

On the other hand, it was the desire of the Japanese that there should be no public reference to this intention and on our part we were in agreement with respect to this point since we certainly do not wish at any time to give the impression that suspicion is being cast upon the Japanese and that therefore watertight restrictions are being established to prevent evasion of the arrangement into which they have entered voluntarily and in good faith. The same sort of understanding exists with respect to the intention of the Japanese to use Philippine customs statistics in determining the volume of imports of Japanese goods and no public statement has been made of this intention.

As this letter is being drafted information has come to us that there is considerable concern in the Philippines over the possibility of importations into the Philippines of Japanese cotton textiles, trans-

[86] Dated October 11, p. 1007.
[87] *Ante*, p. 1006.
[88] *Ante*, p. 1008.

shipped from Hong Kong, falling outside of the voluntary regulation by the Japanese Exporters Association. The fear in the Philippine market of such a development is being brought to the attention of the Japanese and we feel certain that some means can be found of removing the concern over this matter in the Philippines.

It is our general feeling that the arrangement to which the Japanese have agreed is a rather favorable arrangement from the standpoint of Filipino and American interests and we have been rather agreeably impressed with the willingness of the Japanese to go this far. Consummation of this agreement should be very helpful in continuing friendly and cooperative relations with the Japanese Government, not only respecting commercial questions but also respecting the larger problems of policy in the Pacific.

With respect to the commitment of this Government that so long as annual imports into the Philippine Islands of Japanese cotton piece goods do not exceed the figures stated in the memorandum, the American Government will take no action directed toward securing an increase in the Philippine tariff rates on cotton piece goods to take effect prior to the termination of the two-year period covered by this agreement, I should like to say that we felt this was the only position this Government could take in the circumstances. This is not in any sense a *quid pro quo*. It is clearly understood by the Japanese that the power of initiating legislation with respect to the Philippine tariff rests with the Philippine Government itself and not with this Government. It is, of course, the hope and desire of the Japanese that their voluntary action shall influence the Philippine Government to refrain from any tariff increases during the two-year period covered by the agreement. This Government has made no commitment to urge such restraint upon the Philippine Government—if the Philippine Government is to follow a policy of not increasing tariff rates during this period, it must do so voluntarily and as a result of a feeling upon its part that such a line of action is desirable in the interests of the Filipino people.

Furthermore, the agreement with the Japanese will not in any way preclude a discussion of this entire subject by the Joint Trade Conference. The single commitment of this Government is that no request will be made of the Philippine Government, either through the trade conference or otherwise, to raise Philippine textile rates before August 1, 1937. It may be desirable to give full consideration in the conference to the entire question of the Philippine textile market and the relation of that market to Philippine economic problems, as well as to the relations between the Philippines and the United States and foreign countries. Undoubtedly the special committees which you have established to study the problems of the conference are going into this question thoroughly and I am sure you will be in

a position to give us helpful advice on the problem. I believe we are in agreement that the conference must not become a bargaining conference with larger protection in the Philippine market for American textiles, or other American products, offered in return for greater protection in the American market for Philippine products, without very careful consideration of all of the other factors involved in the total situation with which we must deal. Our action in this conference must be wise from the standpoint of the Filipino people as a whole and from the standpoint of the United States, with full weight being given to social and political factors as well as to economic advantages. Whether with respect to textiles or any other problem, we must have in mind more than the immediate interests of the Philippines and the United States for the independent Philippine Government will have to live in an international setting and of necessity its relations with the other powers of the Western Pacific must be peaceful and cooperative.

It is gratifying to know that even in the midst of preparations for the inauguration of the Commonwealth Government and of all the political activity connected with the elections of officers of that Government, you have been able to center the attention of Filipino leaders and experts upon the economic problems so vital to the Commonwealth and to the independent government which is to follow it. Once the inauguration is past I am sure that the two governments can move rapidly toward an early meeting of the Joint Trade Conference.

You have always my best wishes and warmest personal regards.

Sincerely yours, FRANCIS B. SAYRE

611B.9417/89

The Assistant Secretary of State (Sayre) to the Appointed High Commissioner in the Philippines (Murphy)[89]

[WASHINGTON,] October 30, 1935.

For Messrs. Dorfman and Waring. Your 526, October 29.[90]

1. We are very glad to receive this informative and very helpful telegram.

2. It is agreed with the Japanese that transshipments at Hong Kong of cotton piece goods originating in Japan would be included within the annual quota. The Japanese also undertook to regulate as far as practicable shipments to Philippine Islands of cotton piece goods originating in Japanese mills in China. In concluding the arrange-

---

[89] Draft of radiogram transmitted by the Assistant Secretary of State in his letter of October 30 to the Acting Chief of the Bureau of Insular Affairs, War Department.

[90] Same as undated telegram received October 28, p. 1012.

ment, however, it was agreed that we would not give publicity to the understanding reached in regard to transshipped goods and goods originating in Japanese mills in China.

3. Your suggestion that the Department issue a press release clarifying the understanding reached with the Japanese in regard to the two points above mentioned was taken up today (October 29) with the Counselor of the Japanese Embassy. We informed him in general of the contents of your telegram and suggested that it seemed important to clear up the misapprehensions which seemed to exist in regard to transshipped goods. The Counselor stated that the Embassy had received a telegram from the Japanese Consul General at Manila containing information substantially along the lines of your telegram under reference. The Counselor, without prompting on our part, pointed out in effect that as the Philippine statistics classified as imports from Japan all imports of Japanese goods whether coming directly or indirectly from Japan, it would necessarily follow that transshipped goods would be included in the quota. He thought that there might be issued a statement making public such fact. We suggested that it would seem preferable if that fact were brought to the attention of the public by the Japanese rather than by ourselves, and he agreed.

4. The Counselor undertook to communicate with his Government in regard to this matter. It was apparently his thought that some statement along the lines above indicated might be made by the Japanese Consul General at Manila. The Counselor stated that he felt certain that, if the Japanese Government did not desire the issuance of a Japanese statement, it would have no objection to the issuance of an American statement.

611.9417/64a

The Secretary of State to the Secretary of Commerce (Roper)

WASHINGTON, October 31, 1935.

MY DEAR MR. SECRETARY: In my letter to you of October 23, 1935, regarding discussions with the Japanese looking toward limitation of importations into the United States of textile products, I indicated that the Executive Committee on Commercial Policy was having made a study of the list of items which might be covered in such discussions. At its meeting on October 25 the report of the Sub-committee on Cotton Textiles was considered and approved. The report recommended inclusion of cotton cloth, cotton rugs, wool-knit gloves, and cotton velveteens in the contemplated negotiations; however, in view of preliminary information received from experts of the Tariff Commission who are now in the field looking into the competitive facts of cotton

velveteens, it was deemed advisable for the present to omit this product from any deliberations with the Japanese and to await the receipt of a full report from the field study before making a conclusive recommendation with respect to cotton velveteens.

With respect to cotton rugs, the situation vis-à-vis Japan has changed somewhat since the report of the Sub-committee was drafted. On October 25 the Japanese Embassy inquired whether this Government would be agreeable to certain changes in the existing arrangement in regard to cotton rugs. In view of the fact that the changes proposed had been under consideration for several months, it seems advisable to proceed at once to discuss the matter of cotton rugs with the Japanese.

The Committee on Commercial Policy thought it advisable for me to send to you a copy of the report of its Sub-committee [91] and to call attention to the exception noted above with respect to cotton velveteens. It was thought that the Sub-committee's report might be helpful to you but, in view of the extremely confidential nature of the suggestions contained in this report, it is hoped that you may confine it strictly to your personal use. Copies of this report, which had been furnished only to members of the Commercial Policy Committee, have been recalled because of its extremely confidential nature.

Sincerely yours, CORDELL HULL

611.9417/64

The Secretary of Commerce (Roper) to the Secretary of State

WASHINGTON, November 4, 1935.

DEAR MR. SECRETARY: I am sending you herewith a copy of the letter of October 28, addressed to the President, with reference to competing Japanese textiles, and signed by the four members of the Cabinet Textile Committee.

The President returned the letter to me with the notation: "I approve—go ahead." This constitutes authority for the State Department to proceed immediately with its negotiations with the Japanese government to fulfill the purposes as recommended to the President.

Very sincerely, DANIEL C. ROPER

[Enclosure]

The Cabinet Committee on Cotton Textiles to President Roosevelt

[WASHINGTON,] October 28, 1935.

MY DEAR MR. PRESIDENT: You will recall that in the report of the Cabinet Committee on Cotton Textiles submitted to you on August 20,

---

[91] Not found in Department files.

1935, we referred to the increasing importation into this country of certain types of textiles from Japan and expressed the opinion that since Section 3 (*e*) of the National Industrial Recovery Act [92] was no longer operative, the most desirable and expedient course of action now available for securing an effective adjustment of the situation created by such importations would be through informal conference with the Japanese Government with respect to those textile products which have been the subject of complaint to this Government. It was felt that as the result of such discussions a voluntary agreement might be reached as to the volume and terms under which imports of cotton cloth and other cotton products enter this country from Japan. This method had been employed with respect to other Japanese products and at that time conversations were in progress with representatives of the Japanese Government regarding shipments of Japanese cotton cloth into the Philippine Islands.

On October 11, after lengthy negotiations with the Japanese Government, a final agreement was reached providing for the voluntary limitation, by Japanese textile exporters, of importations into the Philippine Islands of Japanese cotton piece goods. This arrangement, it is anticipated, will materially improve the position for American cotton textiles in the Philippine Islands without adversely affecting the interests of the Filipino people, and at the same time it should stabilize the Philippine market for cotton goods. The Governments of both the United States and Japan found themselves in entire agreement upon this method of dealing with a situation which might otherwise lead to increasing conflict between their competing commercial interests.

Within the last few weeks the Cotton Textile Institute and other domestic textile interests have urged this Government to take early action to regulate or restrict textile imports from Japan, either in accordance with the Cabinet Committee's recommendation or in pursuance of the authority which they maintain is vested in you by Section 22 (*a*) of the Agricultural Adjustment Act,[93] as amended.

In view of the successful completion of negotiations with the Japanese concerning the Philippine market for cotton textiles and the renewed drive on the part of the domestic industry for some definite action with respect to importations of textiles into this country, it is the opinion of the members of the Cabinet Committee that the present affords a propitious time for initiating conferences with the Japanese Government with respect to shipments of certain textiles into the United States, if it is your desire to seek an adjustment along these lines before giving serious consideration to the possibility or desirability of employing more direct means of controlling such imports.

---

[92] 48 Stat. 195.
[93] 49 Stat. 773.

In the event that an agreement with the Japanese along these lines is to be sought, it would appear to be advisable to undertake the discussions as soon as possible, inasmuch as negotiations of this character usually take considerable time.

In order to save time the Executive Committee on Commercial Policy, which has helped to formulate the recent agreement with Japan with respect to Philippine importations, have directed their attention recently to the principal textiles imported into the United States from Japan against which complaint has been made, namely, cotton cloth, cotton rugs, cotton velveteens, woolen gloves and mittens, and cotton fish netting. It has appointed a sub-committee to gather all pertinent facts relating to these commodities and to study the direction which negotiations should take in the event that it is your desire to proceed with negotiations. As a result of this study the Executive Committee on Commercial Policy will therefore shortly be in a position to advise with respect to these matters.

It is our considered opinion that the fear of sharply increasing importations at very low prices of Japanese textile products, rather than the actual amount, has been a disturbing element in the domestic textile situation. Prompt action by this Government, therefore, in seeking a solution of this aspect of the general textile problem may prove of considerable assistance to the industry in continuing the present improvement trend and in safeguarding wages and labor conditions first established in the industry under Code No. 1 of the National Industrial Recovery Act.

Faithfully yours,

Secretary of Commerce, Chairman
Secretary of State
Secretary of Agriculture
Secretary of Labor

611B.9417/101

Memorandum by Mr. Roy Veatch of the Office of the Economic Adviser

[WASHINGTON,] November 27, 1935.

Conversation: The Japanese Ambassador;
Mr. Sayre;
Mr. Dooman;
Mr. Veatch.

I. IMPORTS INTO THE PHILIPPINES OF JAPANESE COTTON TEXTILES

The Japanese Ambassador called on Mr. Sayre on November 27, 1935, at the suggestion of Mr. Sayre.

Mr. Sayre stated that information had come to the Department regarding imports into the Philippines of Japanese cotton goods which gave the Department some concern, in connection with the agreement regarding the voluntary regulation of these imports by the Japanese exporters. It was probable that the Japanese were informed of the current figures, but in view of the fact that the Japanese Government had requested earlier that the Philippine Customs Service cooperate with the Japanese exporters in their efforts to regulate imports into the Philippines, Mr. Sayre was glad to hand the Ambassador a statement of the situation as reported by the Philippine Customs Service. (A copy of the statement handed to the Ambassador is attached.[94])

The Japanese Ambassador stated that he understood that the Japanese Government was already informed of these figures, and he believed that some action had already been taken to prevent further shipments of cotton piece goods to the Philippines. The Japanese Consul General at Manila had recently been much concerned about the size of Japanese imports, and had kept Tokyo informed of Philippine statistics.

Mr. Sayre said that he was sure that the Japanese had either already taken action or would take action immediately to halt shipments to the Philippines, and he wondered if it would not be desirable to make some public statement of such action in order to allay the fears of the American textile interests and thus to check pressure for some action, either on the part of the Philippine Government or of this Government, which would defeat the purpose of the voluntary arrangement undertaken by the Japanese exporters. It was his feeling that the Japanese could best protect their own interests in connection with this problem by making a public announcement of their policy, stating that shipments to the Philippines of cotton piece goods have been discontinued, and that they will not be resumed until they can be placed in the Philippine market in accordance with the agreement.

The Japanese Ambassador said that he could see the advantage in such action by the Japanese, and he would immediately communicate with his Government with regard to it. He had not himself followed the details of developments in the Philippine market, but Mr. Yoshizawa, Counselor of the Embassy, had kept in close touch with the facts.

Mr. Dooman stated that Mr. Yoshizawa and he had discussed the situation a few days ago, and had agreed that the matter should be taken up further, as soon as possible.

Mr. Sayre assured the Ambassador that officers of the Department would be ready to talk over the matter with Mr. Yoshizawa, or to give whatever assistance they could, in connection with efforts to allay fear

---

[94] *Infra.*

and to preserve the advantages sought by the Japanese through voluntary restriction of their exports to the Philippines. The preparation and release of a statement by the Japanese Government was of course entirely in the hands of the Japanese.

II. Proposed Treaty Governing Alaskan Salmon Fishing [95]

Mr. Sayre laid the proposal before the Japanese Ambassador along the lines of the attached memorandum,[96] explaining that the matter had been presented to the Japanese Government by the American Ambassador in Tokyo but that for some reason a favorable response had not been received. Mr. Sayre stressed the importance of allaying the fears of the Pacific Coast states and Alaska by some such arrangement as that proposed. Mr. Sayre himself was fully convinced that the Japanese Government had no desire whatever to destroy the Alaskan red salmon, but he felt that Government would secure a definite advantage if it could agree with this Government upon a means of assuring the general public of this fact. The American Government on its part, was willing to discuss with the Japanese Government concessions which it might offer in order to make the suggestion attractive to the Japanese.

The Japanese Ambassador stated that he understood the situation, and that he would communicate with his Government and try to get them to "think" some more.

611B.9417/102a

The Department of State to the Japanese Embassy [97]

1. Philippine customs statistics indicate that imports of Japanese cotton piece goods into the Philippines during the first three months of the agreement, August, September and October, totaled 26,021,000 square meters.

2. Reports from the Philippine customs service indicate that the liquidation of duty on Japanese cotton piece goods has continued in November so that the statistics for November will show imports for the first four months of the agreement several million square meters in excess of the agreed maximum for any six months' period.

3. The Philippine customs service reports that arrivals of Japanese goods in November continue heavy, arrivals during the first half of the month totaling 4,000 packages, a slightly higher rate than during the previous three months.

---

[95] Cf. telegram No. 186, November 29, 5 p. m., p. 1079.

[96] Not printed.

[97] Handed to the Japanese Ambassador by the Assistant Secretary of State on November 27.

4. It is probable that there is a sufficient amount of Japanese cotton goods already in the Philippines to produce a total figure of imports of Japanese cotton piece goods during the first six or eight months of the agreement twice as great as the maximum agreed upon for any six months' period.

[WASHINGTON,] November 27, 1935.

611B.9417/175

Memorandum by Mr. Roy Veatch of the Office of the Economic Adviser

[WASHINGTON,] December 3, 1935.

Conversation: Mr. Yoshizawa, Counselor of the Japanese Embassy;
Mr. Sayre;
Mr. Hamilton;[98]
Mr. Veatch.

Mr. Yoshizawa called on Mr. Sayre to communicate the report which the Embassy had received from Tokyo in response to the information transmitted to the Japanese Ambassador by Mr. Sayre on November 27. The reply from Tokyo had been received Monday, December 2.

Mr. Yoshizawa stated that he was authorized to say that the press account of the statement made by a spokesman of the Foreign Office in Tokyo was correct. The Japanese association of exporters of cotton goods to the Philippines had stopped shipments of cotton piece goods to the Islands on November 16. On the other hand, he was instructed to say that the Japanese Government did not admit the correctness of the figures of imports into the Philippines of Japanese goods cited by this Government (a total of 26,012,000 square meters in the first three months covered by the agreement).

Mr. Yoshizawa explained that the Japanese figures showed only 21,700,000 square meters for the three months in question. When asked to explain the basis for these figures, Mr. Yoshizawa was at some loss to interpret clearly the memorandum in Japanese which he had before him. He said at first that their figures represented clearances through the Philippine customs during the three months plus one third of the goods arriving in July. This statement carried the impression that the Japanese figures were based upon Japanese shipments to the Philippines and the assumption that this goods was then promptly cleared through the Philippine customs. Mr. Yoshizawa made the point that one third of the July arrivals (or shipments?) had been included "for good measure" since it was assumed that it would take some little time to clear these arrivals through the Philippine customs.

---

[98] Maxwell M. Hamilton, Assistant Chief of the Division of Far Eastern Affairs.

Mr. Yoshizawa's attention was called to the fact that the Japanese figures were quite different from the statistics of the Philippine Customs Service, which were the statistics which had been agreed upon as the measure of imports of Japanese cotton goods.

Mr. Yoshizawa urged the American Government to remember, however, that the measure of imports of Japanese goods into the Philippines should be based on figures which would reflect the ability of the exporters to control the situation—the Japanese exporters can control only shipments and not goods cleared through the Philippine customs.

Mr. Sayre explained the usual delay in the appearance of imports of Japanese goods in the Philippine customs statistics due to the method in which these statistics were assembled and published and suggested that no doubt this was the reason for some divergence between the Japanese and the Philippine figures.

Mr. Yoshizawa suggested that the discrepancy could be accounted for, however, by the fact that imports of Japanese goods from Hong Kong were included in the Philippine figures of 26,012,000 for August–October. He explained that the Japanese exporters could not control reshipment of Japanese goods from Hong Kong or other ports into the Philippines since these goods were cleared from Japanese ports for these other ports and presumably for consumption there and were purchased by Philippine importers only after their arrival at these other ports. He stressed the strong desire of Japanese exporters and of his Government that such imports into the Philippines should not be included in the amount reckoned as imports from Japan. When his attention was directed by Mr. Sayre to the fact that the agreement definitely covered this point and provided that all goods originating in Japan should be covered by the agreement, Mr. Yoshizawa was not prepared to deny this point but he did request this Government to recognize the impossibility of control of this trade by the Japanese and he added that the Japanese would prefer that no shipments of Japanese goods should enter the Philippines from Hong Kong. They neither wished to have shipments of this character covered by the agreement nor to have the agreement evaded by shipments in this roundabout way. He suggested, therefore, that the matter should be left in the hands of this Government and that we should request the Philippine Government itself to prevent imports of Japanese goods when transshipped from non-Japanese ports.

Mr. Yoshizawa's attention was called to the fact that imports into the Philippines of Japanese goods from Hong Kong had been very small and could not in any sense account for the discrepancy between the Japanese and the Philippine figures of imports during the first three months of the agreement. Some imports had been made from

Hong Kong by a Japanese house in the Philippines under a contract that had been made before the agreement had been reached, and it was understood that no further shipments were planned by this company. Undoubtedly some further imports from Hong Kong had been arranged for by non-Japanese merchants in the Philippines in the expectation that the quota set up by the Japanese could be evaded in this manner, but since it has become known that such transshipments of Japanese goods are covered by the agreement and since transshipment via Hong Kong is more expensive than direct shipment, it is expected that there will be no further attempt to bring Japanese goods into the Philippines in this manner. It was suggested, therefore, that imports of Japanese goods from Hong Kong probably would not become a serious problem.

Mr. Sayre attempted to sum up the present situation by saying that the important thing was that the Japanese exporters had halted shipments to the Philippines and this action provided a breathing space within which further study of the facts of the situation might be made, after which agreement could be reached upon the best means of adjusting future shipments to the limitation set by the agreement. Mr. Yoshizawa objected, however, to the statement that the Japanese action would provide a "breathing space". He wished to make it clear that the Japanese Exporters Association had halted shipments to the Philippines on November 16 only because their own figures showed that they were nearing the maximum limitation for the first six months by the end of October and feared that further shipments in November might fill this quota. They had not halted shipments as a result of the Philippine figures, which indicated that the quota had already been exceeded, since they did not admit the correctness of these figures. He also explained the Japanese exporters' action in halting shipments as designed to hold the situation as it is until the two Governments could explore the discrepancy between their respective sets of figures.

Mr. Veatch recalled the terms of the agreement, which provided that the published statistics of the Philippine Customs Service should be the measure of imports of Japanese goods into the Philippines under the agreement. It was suggested that agreement on this point had been reached for the specific purpose of guarding against any misunderstanding in the future as to what statistics or what measure of such imports was to be followed. In view of this specific agreement, it was difficult to see on what basis the Japanese Government might now suggest some other measure of these imports, a measure based upon their own export statistics rather than the Philippine customs statistics of imports.

In reply Mr. Yoshizawa said "it is perfectly right" that the two

Governments agreed upon the Philippine customs statistics. He then called attention to the fact that heavy shipments of Japanese goods had been made to the Philippines during the summer months, due to the fact that a restriction agreement was being discussed at that time, and it was his understanding that much of this goods did not appear in Philippine customs statistics until after August 1—heavy shipments made in June or July may not have appeared in Philippine statistics of imports until August. He hoped, therefore, that the American Government would recognize the difficulty created by this situation and allow some leeway.

Mr. Sayre assured Mr. Yoshizawa that this Government was convinced of the good faith of the Japanese Government and did not have the least suspicion that any attempt had been made to evade the agreement or to break its terms through shipments in excess of the maximum amounts established in the agreement. This Government was alive to the difficulty created by the fact that there is a great lag in the reporting of imports through the Philippine customs statistics, and it would wish to cooperate with the Japanese Government in every possible way to prevent any misunderstanding of this situation. He was sure that Mr. Yoshizawa recognized the critical attitude which the American textile interests take toward the agreement and the desire of certain political interests to attack it. This Government intended, therefore, to absolve the Japanese Government of all blame for the situation which has developed, and it was intended to place all of the facts before the American textile interests just as soon as a full understanding could be reached with the Japanese Government. It was important, of course, that there should be no misunderstanding with regard to the agreement or with regard to the statistics of imports covered by the agreement. Even though imports into the Philippines may be shown by Philippine statistics within the next two or three months to be greatly in excess of the agreed maximum for the first six months, it would be impossible to increase the quota itself since the American critics of the agreement felt that the agreement itself was overly generous to the Japanese.

Mr. Yoshizawa wished to make it clear that his Government was not suggesting that it wished to use any other figures than the Philippine customs statistics, the statistics which the Japanese Government and the Japanese Exporters Association had agreed should be the measure of imports into the Philippines.

In an attempt to clarify the discussion and to state the clear understanding between himself and Mr. Yoshizawa, Mr. Sayre gave the following summary:

In view of the fact that Philippine customs statistics have shown that the six months' maximum set for imports into the Philippines of Japanese cotton goods had been reached at the end of three months

and that this fact created suspicion or fear on the part of some American and some Philippine interests that the terms of the agreement were being broken, the Japanese Exporters Association had ceased shipments of cotton goods to the Philippines on November 16. The Japanese Government has now approached the American Government to discuss the situation in which the Japanese exporters have been placed due to the fact that some of the imports recorded in the Philippine statistics of imports since August 1 actually were shipped into the Philippines prior to that date, particularly during the period of heavy shipments in the early summer months. In order to emphasize the fact that these statistics are not a proper indication of the efforts of Japanese exporters to abide by the terms of the agreement, the Japanese Government calls attention to the statistics of actual shipments to the Philippines by the Japanese and, therefore, of actual arrivals of Japanese goods in the Philippines during the period of the agreement. It is the hope of the Japanese Government that the American Government will understand the embarrassing position in which the Japanese have been placed by this situation and will be able to cooperate in some equitable adjustment.

In reply to this representation the American Government wishes to assure the Japanese Government that in no respect does it question the good faith of the Japanese Government or of the Japanese exporters with respect to their efforts to carry out the agreement. It is understood that the present difficulty arises out of the method in which Philippine customs statistics of imports are prepared and published. The American Government appreciates the action of the Japanese exporters in halting shipments of cotton goods to the Philippines while the matter can be discussed and the American Government will expect to take steps to make the situation clear and to guard against criticism of the Japanese Government in connection with the apparent overshipment of the maximum amounts set up in the agreement.

Mr. Yoshizawa expressed his agreement and satisfaction with Mr. Sayre's summary and he emphasized again his understanding that his Government had no intention of insisting on any other measure of imports into the Philippines than the Philippine customs figures, in accordance with the clear understanding in the agreement itself. He was sure that his Government had not intended to advance its own figures as an alternative on which it intended to insist, and he reassured himself on this point by referring to one or two points in the memorandum which he carried, stating that in one place he was instructed to give no publicity to the Japanese figures. It was his understanding that he was to use the Japanese figures merely to stress the dilemma in which the Japanese exporters found themselves.

Mr. Yoshizawa expressed appreciation of the intention of this Government to remove suspicion of Japanese motives, so far as possible, on the part of American textile interests and to explain the real basis of the present difficulties. He offered one further piece of information which might assist the Department, stating that on November 18 the Japanese Government, acting under the powers

created by the Exporters Association Act, had adopted a measure which provided for the inclusion of all exporters of cotton piece goods to the Philippines in the Association so that no exporter might escape limitation of his shipments of cotton piece goods to the Philippine market. Mr. Yoshizawa also stressed the point that his Embassy was always reporting to Tokyo the position of the Department of State vis-à-vis the American textile people, making it clear that the Department was under great pressure, that there was the danger of repressive legislation and that the Department appreciated every effort of the Japanese to control their shipments because of the advantage such action gave the Department in its dealings with the American textile interests.

Mr. Veatch suggested that, in addition to reassuring the American textile interests with regard to what has already happened, it probably would be desirable also to take some action which would offer reassurance as to the intention of the Japanese exporters to control future shipments in line with the agreement. At the present time the large stocks of Japanese goods in the Philippine market have depressed prices in that market and have caused considerable uncertainty and hesitancy as to the future of that market. The action of the Japanese exporters in halting shipments on November 16 has caused some improvement but there still is the fear that the large stocks of Japanese goods, stocks apparently capable of supplying the normal demand for six months or more, may continue to be offered on the market at a very low price. This situation has the effect of holding down prices and at the same time importers are not buying American goods because they fear that large amounts of Japanese goods may still be imported. If, in addition to the November 30 statement of the Japanese Foreign Office regarding the halting of Japanese shipments, the Japanese Government could make a further statement to the effect that shipments would not be resumed until they could be made consistent with the terms of the agreement, then the Philippine textile market would be informed that further Japanese goods would not be available until present stocks had been used up, and then only in restricted amounts. This action should have the effect of improving prices in the Philippines for both Japanese and American cotton goods and of strengthening the demand for American textiles to supply that part of the market which could not be supplied by Japanese textiles under the limitations of the agreement. This would serve to remove much of the agitation against the agreement. The Japanese Government might be considering the desirability of such a statement to be made after agreement had been reached with this Government with respect to the figures and the details of necessary adjustments growing out of the present situation.

As Mr. Yoshizawa prepared to leave, Mr. Sayre said he supposed no reply had been received by the Embassy in response to the suggestion of this Government that conversations might be initiated with regard to shipments of Japanese cotton goods to the American market. When Mr. Yoshizawa replied that no word had yet been received, Mr. Sayre asked if he had any indication of the reason for the delay and stressed the danger of legislation against imports from Japan if no voluntary arrangement had been reached by the time Congress convenes in January.

In reply Mr. Yoshizawa said that he felt the proposal to limit shipments of Japanese cotton piece goods to the American market was too "broad" to make it possible to reach a hasty conclusion. In explanation of this statement he said that agreement to limit the shipments of such an important commodity might create a precedent for the suggestion that other commodities should also be limited—such a suggestion might be made with respect to silk for instance.

As he departed, Mr. Yoshizawa asked again if it were clearly understood that the Japanese Government wished that transshipments of Japanese goods via Hong Kong should not be included in the statistics of imports of Japanese goods to be covered by the agreement. Since imports into the Philippines of Japanese goods from Hong Kong or other foreign ports could not be controlled by the Japanese exporters, it was suggested that steps should be taken by the American and Philippine Governments to prevent such imports.

In reply Mr. Sayre said that he also wished to reiterate the position of the Department that insofar as such shipments had been made they were, under the terms of the agreement, clearly to be included in the imports covered by the agreement. If such imports became an important factor, then this Government would be glad to take the matter up and to explore the possibility of legislative action in the Philippines.

611B.9417/148a

The Assistant Secretary of State (Sayre) to the High Commissioner in the Philippines (Murphy)[99]

WASHINGTON, December 4, 1935.

It is our impression that the extreme lag in the Philippine customs reports of imports is chiefly responsible for the fact that Philippine imports of Japanese cotton goods now show, and probably will continue to show for next two or three months, large excesses over quota set in agreement with Japanese. If this is true, it is our thought to

[99] Text transmitted to the Acting Chief of the Bureau of Insular Affairs, War Department, on December 5 for transmission by radio to the High Commissioner at Manila.

absolve the Japanese from blame as far as the actual situation will warrant. At the same time, in the light of our present information, we intend to hold to the published Philippine statistics as the measure of imports from Japan to date since the agreement specified these statistics. To use statistics of arrivals instead of the published statistics based on liquidation of duty apparently would have the effect of increasing the Japanese quota for the first year of the agreement by some 28,000,000 square meters and would be undesirable from many points of view and impossible from a political standpoint. It may be desirable later to shift to statistics of arrivals as a more convenient measure of imports for the second year of the agreement and also to adopt some adjustment or compromise regarding Japanese shipments during the remainder of the first year, but in any case, it seems probable that Japanese shipments of cotton cloth to the Philippines, halted November 16, will not be resumed for several months.

It will be helpful if you can place this explanation of our position before Dorfman, Richards [1] and Waring and any others who have been giving consideration to this matter so that there may be no misunderstanding and so that no intimation shall reach the Japanese that any other basis than the published statistics is being considered.

You will be informed as soon as a definite adjustment has been worked out with the Japanese. In making this adjustment, it is essential that we be fully informed of the actual situation in the Philippines, and it will be appreciated, therefore, if you will refer the following inquiry to Dorfman, Richards and Waring:

Your radiogram December 3 [2] appreciated. In addition need early reply by radio to following questions:

Amount of Japanese goods actually arrived and awaiting liquidation of duty on August 1, or amount of goods awaiting liquidation of duty at present time, or on any other particular date since August 1? Would your answer to this question check with computation here that 11,400,000 square meters Japanese goods which arrived in 1934 was included in published Philippine customs statistics of imports for 1935 (note your radiogram of November 12 [3]), that in addition there arrived in the Philippines January–July 1935, inclusive, roughly 47,000,000 or 48,000,000 square meters, that published Philippine statistics showed only 30,500,000 square meters as imported (duty liquidated) during January–July, and that as a result there must have been roughly 28,000,000 square meters of Japanese cotton piece goods in the Philippines on August 1 which had not yet appeared in the Philippine customs statistics of imports because the duty on these goods had not yet been liquidated?

Assuming no more shipments of Japanese cloth after November 15, what is estimate of total amount of Japanese cloth to appear in

[1] J. Bartlett Richards, Trade Commissioner at Manila.
[2] Not found in Department files.
[3] Not printed.

Philippine liquidation figures from August 1 on? Also what is best estimate, even though rough, of amount of Japanese cotton cloth actually on the market and in competition August 1, and also amount in square meters of stocks of Japanese cotton cloth on the shelves at the present time (equivalent of your estimate of four to five months' supply)?

In what kinds of cloth does rayon compete with cotton and what is importance of these kinds in relation to total consumption of cotton cloth? To what extent is it felt in the market that rayon cloth may be substituted for cotton cloth when Japanese cotton cloth may not be secured so easily?

What is present situation with respect to imports of cotton cloth from Hong Kong and Shanghai or placing of orders in these markets? Is it expected that importers in the Philippines will place large orders in Shanghai or elsewhere when adequate supplies of Japanese cloth are no longer available? Is there likely to be any way of discouraging such importations short of legislative action in the Philippines? (Inquiries on this point should be particularly guarded.)

We hope to reach an understanding with the Japanese as soon as possible with regard to administration of the agreement in the future and adjustment of the present situation. You can assist us by sending us via naval radio as soon as possible and in as much detail as possible a statement of all information and opinion which appears to you to be pertinent.

SAYRE

611B.9417/103

Memorandum by Mr. Roy Veatch of the Office of the Economic Adviser of a Conversation With the Third Secretary of the Japanese Embassy (Hayama)

[WASHINGTON,] December 10, 1935.

Mr. Hayama telephoned during the morning and asked if he could come to see me soon to inform the Department of a message that had been received from the Japanese Consul General in Manila.

When Mr. Hayama came in he read from a Japanese memorandum which he carried of a cable which had been received from the Japanese Consul General in Manila, a copy of which had been sent by the Consul General to Tokyo. According to this cable, the Philippine Secretary of Finance (Mr. Quirino) had replied to inquiries of the "Chamber of Commerce" and other trade bodies to the effect that the Philippine statistics showed 20,034,185 square meters of Japanese cotton piece goods had been imported into the Philippines during the four-month period August–November.

The Japanese Consul General evidently had been anxious to verify these statistics and he had gone to the Philippine collector of customs and had secured from him a full statement of the statistics of arrivals

of Japanese cotton cloth. The Consul General reported that the collector of customs was gathering the statistics and that up to December 6 his investigations showed the following results:

Arrivals August–November			
August	5,648,202	square	meters
September	6,296,273	"	"
October	5,527,695	"	"
November	4,373,254	"	"
Total	21,845,424	"	"

These figures include transshipments via Hongkong. They exclude reports which are due from the outer ports of the Philippines and also 53 cases (or orders) arrived in Manila but not yet declared, these cases having arrived as follows:—1 case in August, 6 cases in September, 8 cases in October and 38 cases in November.

I thanked Mr. Hayama for bringing this cablegram to our attention and informed him that we also had this information. I recalled the fact that I had discussed this situation briefly with Mr. Yoshizawa on December 7. I emphasized the fact that the statistics released by the Secretary of Finance in Manila were statistics of arrivals and were very much different from the regular customs statistics of imports, which were based on liquidation of duty on imports, and I told him that I thought Mr. Yoshizawa understood this fact and the difficulties created thereby. As Mr. Hayama left, I stated that we had in mind a full discussion with representatives of the Embassy as soon as we had all of our information in, which I believed would be in a very few days.

611B.9417/153

The High Commissioner in the Philippines (Murphy) to the Secretary of War (Dern)[4]

MANILA, December 11, 1935.

620. Your 717. Our 611 repeated: Your 709. Please forward to Mr. Sayre, State Department.

Yours December 5th, through War Department, Bureau of Insular Affairs. From contents your radiogram and press dispatches under Washington date line it appears that there is some misunderstanding in respect to the procedure of arrival, clearance, liquidation and report of imports by Philippine customs. It has apparently been assumed that date arrival differs widely from date of clearance from customs custody and that date of liquidation of duties and consequent inclusions in monthly statistical report approximate date of clearance. This is not the case. I am informed that most foreign goods, and

[4] Copy of radiogram transmitted to the Department by the War Department, December 11.

practically all textiles, are cleared from customs custody and enter into trade within 2 or 3 days after arrival under importers or brokers guarantee bond to duly liquidate import duties on demand. Thereafter from a fortnight to 3 months, and in many cases a much longer period, elapses before duties are liquidated. The customs does not include the goods in their monthly report until duties have been fully liquidated. For this reason and bearing in mind that only small quantities of textiles are held in customs custody under bond, dates of arrival and clearance bear a close relation to date of entry into trade and dates of liquidation and report bear little if any relation to date of entry into trade. Further, monthly reports as now based on date of liquidation of duties are of questionable value for control of quota goods. It is the opinion of Doctors Waring, Dorfman, Mr. Richards, my advisers, and local customs officers that for purpose of quota control there should be published an official report of imports by date of arrival or by date of clearance from customs custody.

Your committee working with local customs officers have brought out a very creditable calculation of arrivals of Japanese cotton textiles which shows such imports from August 1st to November 30th at 24,500,000 square meters exclusive of 50 unreported invoices representing goods in customs custody. Customs regular reports based on date of liquidation of dates from August 1st to October 31st show about 26,000,000 square meters. From the foregoing it is apparent that on basis of arrivals and entry into trade the quota has not quite been received, while on basis of date of liquidation of duties the quota was materially exceeded over 1 month ago.

Copies of your radiogram have been received your committee and they filed a long radiogram yesterday before leaving for their southern trip. Doctor Waring further advises that an exhaustive letter report is on way.

MURPHY

611.9417/97

Memorandum by Mr. Roy Veatch of the Office of the Economic Adviser

[WASHINGTON,] December 13, 1935.

Conversation: Mr. Seijiro Yoshizawa, Counselor of the Japanese Embassy;
Mr. Sayre;
Mr. Turner;[5]
Mr. Veatch.

As a result of Mr. Yoshizawa's suggestion, in conversation over the telephone with Mr. Veatch on December 12, it was arranged for him to call on Mr. Sayre.

Mr. Sayre said that a representative of the cotton textile industry had been in to see him the day before and, in conformity with the request of the Japanese Ambassador that the Embassy be informed

[5] William T. Turner of the Division of Far Eastern Affairs.

whenever more drastic restriction moves were under consideration, Mr. Sayre was able to inform Mr. Yoshizawa in confidence of the action which was proposed by the textile interests. These interests expect to request the President to impose quotas, under Section 22 of the Agricultural Adjustment Act, upon the imports from Japan of certain cotton textiles (Mr. Sayre read Section 22 of the AAA). Various textile groups also were planning a drive for legislative action against textile imports from Japan as soon as Congress opens.

Mr. Yoshizawa said that the Embassy was in an embarrassing position because it was unable to give any explanation for the delay of the Japanese Government in replying to the suggestion of this Government that conversations be undertaken with respect to control of imports into the United States of certain Japanese textiles. The Ambassador had cabled Tokyo immediately after his first conversation with Mr. Sayre on the subject, and Mr. Yoshizawa had dispatched another cable immediately after his conversation with Mr. Sayre a week or so ago.

Mr. Yoshizawa was anxious to know what picture the textile people painted of the present situation. Had they brought in any actual figures?

In response Mr. Yoshizawa was told that of course the textile people and this Government have the figures of imports. It has been noted that arrivals from Japan fell off strikingly during the summer months but there still exists a large accumulation of Japanese goods in bonded warehouses which the textile interests consider as pressing upon the market. Furthermore, there still exists the fear that Japanese goods may suddenly penetrate the market, upsetting the price structure and perhaps destroying the domestic market for certain lines of textiles. He was reminded of the history of the agitation against imports of Japanese textiles, the fact that this agitation had been the most violent of any agitation against Japanese competition, and that a special Cabinet Committee had been formed to deal with the matter. The special Cabinet Committee had recommended more than six months ago that some form of control of textile imports from Japan was desirable but had urged that voluntary agreement be sought with the Japanese before any other action should be taken. Six months had now gone by without any progress in securing such a voluntary agreement and it was going to be impossible to prevent action of some other character unless something were done along this line very quickly. The deadline had been reached, if not passed.

Mr. Yoshizawa said that he understood the situation thoroughly and that he would explain to the Ambassador our concern over the delay and the plans of the textile interests for requesting more dras-

tic action. He said that a cable would be dispatched to Tokyo later in the afternoon recommending that the Japanese Government reach a decision on the matter one way or the other.

Mr. Sayre then spoke of the arrival figures which had been handed out in Manila and of the proposed press release, which Mr. Yoshizawa had seen in Mr. Veatch's office December 7, Mr. Sayre explained that instead of making a release here, we had suggested that a release be made in Manila similar to the one which Mr. Yoshizawa had seen in the Department. As soon as we had word from Manila that the release was to be made, we would be glad to inform Mr. Yoshizawa and to supply him with the text of the release if the text were transmitted to us. Since the Philippine Government is now more than ever divorced from control by this Government, we cannot, of course, dictate what that Government is to do.

Mr. Sayre then informed Mr. Yoshizawa that the Interdepartmental Committee on the Philippines was to meet later in the afternoon to discuss textile difficulties arising in connection with the cotton textile agreement with Japan. It was appreciated that strict adherence to the letter of the agreement would work a hardship on the Japanese exporters. It was Mr. Sayre's intention, therefore, if the Interdepartmental Committee so decides, to suggest that Mr. Yoshizawa and the Ambassador should come in and talk the matter over, perhaps tomorrow morning.

Mr. Yoshizawa commented that the agreement quite clearly stated that the Philippine customs statistics were to be the measure of imports from Japan under the agreement. He was sure, however, that the United States Government would recognize the fact that the Japanese can control exports only and that statistics of arrivals would therefore be a better measure to follow.

Mr. Sayre stated again that it was his feeling that representatives of both Governments should explore the problems which had arisen in connection with the agreement. He thought there was a distinct possibility that it would be desirable to shift to arrival statistics. At the same time there were many problems to be considered and dealt with, including the reaction of the textile interests in this country.

Mr. Yoshizawa said that he presumed if this problem were placed before the Japanese Government, that Government would request the United States Government to exclude transshipments from Hong Kong from the quotas covered by the agreement, since Japanese exporters were unable to control such shipments, and that they would also ask the American Government to do something about the unusual circumstances shown by the liquidation figures of the Philippines for August and September.

Mr. Yoshizawa was quite sure that it would be possible for the Ambassador and him to come to the Department on Saturday morning if Mr. Sayre wished to call them.

In leaving, Mr. Yoshizawa repeated his assurance that the Embassy would cable Tokyo this same afternoon expressing the concern of this Government over the delay of Tokyō in replying to this Government's query.

611B.9417/105½

Memorandum by Mr. Roy Veatch of the Office of the Economic Adviser

[WASHINGTON,] December 14, 1935.

Conversation: The Japanese Ambassador;
Mr. Seijiro Yoshizawa, Counselor of the Japanese Embassy;
Mr. Sayre;
Mr. Veatch.

Mr. Sayre cited that part of the agreement covering the statistics to be used as a measure of imports into the Philippines of Japanese cotton piece goods and read the following sentence from the memorandum of conversation which had been initialed by the Japanese Ambassador and himself:

"The Ambassador further stated that the statistics of imports compiled by the Philippine Customs will be used as the basis of determining the volume of imports of Japanese cotton piece goods."

The Ambassador and Mr. Yoshizawa both expressed their assent to this statement.

Mr. Sayre then handed the Ambassador and Mr. Yoshizawa copies of two statements and a table of statistics (copies of which are attached [6]) and read the two statements with some explanatory comment. He stressed the point that he wished to act as a gentleman with respect to this agreement and that this Government was therefore not prepared to insist upon the strict letter of the agreement because it felt this would be a hardship on the Japanese. Rather than following what would be a "legal" interpretation of the agreement, requiring the withholding of further shipments from Japan for many months, he was suggesting that shipments might be resumed the 1st of February so that the connections between the Japanese exporters and retailers handling their goods in the Philippines might be maintained without interruption.

---

[6] Not attached to file copy.

Mr. Sayre suggested that if the Japanese Government could make a statement to the effect that shipments which had been discontinued on November 16 would not be resumed until the end of January, then the Embassy and the Department would have time to go into the detailed problems with the purpose of reaching agreement upon an adjustment of the statistical basis of the agreement and of the limitation set by the agreement, which would be equitable and mutually satisfactory.

Mr. Sayre then called attention to what he characterized as the "bulge" in the exports of Japanese cotton cloth to the Philippines during the five months preceding the effective date of the agreement, a bulge which he estimated to be approximately 14,000,000 square meters since shipments during those months this year exceeded shipments during the same period last year by that amount. One of the problems which would require discussion would be the distribution of this bulge. Mr. Sayre was of the opinion that some adjustment should be made regarding this.

The Ambassador asked if his understanding was correct that in any case, less than 14,000,000 square meters would have to be included in the quota. Mr. Sayre replied in the affirmative.

611.9417/71

Memorandum by Mr. Roy Veatch of the Office of the Economic Adviser

[WASHINGTON,] December 21, 1935.

Conversation: The Japanese Ambassador;
Mr. Sayre;
Mr. Turner;
Mr. Veatch.

The Ambassador called on Mr. Sayre to deliver the reply of his Government to the suggestion that conversations be inaugurated with respect to the possibility of reaching agreement upon some form of voluntary control by Japanese exporters of shipments of certain textiles to the United States.

The Ambassador handed a typed statement [7] to Mr. Sayre and elaborated upon the reasons which led the Japanese Government to say that the Japanese cotton textile manufacturers and exporters are of the opinion that the American proposal is unacceptable. He emphasized particularly the small amount of Japanese cotton goods entering the United States, an amount which should not constitute a menace to the American industry. Personally, he said, he did not place much importance upon the second reason, the fact that importation

---

[7] *Infra.*

into the United States of Japanese cotton goods tends to adjust in a small measure the balance of trade between the United States and Japan, which is "generally and normally unfavorable to Japan."

The Ambassador emphasized the second point in the typed statement, the action of the Japanese manufacturers and exporters in voluntarily restricting their exports to the United States and called particular attention to the fact that this voluntary control of exports is already in force. It was the opinion of the Japanese Government, therefore, that there was little likelihood of a repetition of the abnormal increase in cotton textile exports to the United States which occurred during the first part of 1935.

Mr. Sayre expressed regret at the decision of the Japanese Government that it was unable to discuss a possible agreement but he said, of course, that that decision would have to be accepted by this Government. He was glad to learn that Japanese exporters are restricting their shipments to this market but he supposed that this action would not remove the fear of the American industry with regard to the future.

Mr. Sayre said that it probably would be desirable to make a statement to the press based upon the information which had been conveyed by the Ambassador. The Ambassador was then asked if he saw any objection to making a statement to the press which would stress the voluntary action of the Japanese exporters and which might state that this Government would intend to raise the question of some formal agreement covering such exports or would consider other methods of controlling them if Japanese exporters were not successful in regulating their shipments with the result anticipated by the Japanese Government. In reply the Ambassador said that he saw no objection whatever to such a statement and that he thought it would be useful to make some such statement in an effort to allay the fears of the domestic industry. If it were desired, the text of a statement might be read to him or to Mr. Yoshizawa at the Embassy before released but that he did not consider that necessary.[8]

611.9417/71

The Japanese Embassy to the Department of State[9]

1. The Japanese cotton textile manufacturers and exporters are of the opinion that the recent American proposal is unacceptable for the reasons:

---

[8] The press release was issued on the same day for the morning papers of December 22; printed in Department of State, *Press Releases*, December 28, 1935, p. 581.

[9] Handed to the Assistant Secretary of State by the Japanese Ambassador on December 21.

a. That the very small amount of Japanese cotton goods imported into the United States cannot constitute an appreciable menace to the American cotton textile industry.

b. That the importation of Japanese cotton goods tends, though in a small measure, to adjust the balance of trade between the United States and Japan, which is generally and normally unfavorable to Japan.

2. The Japanese Government, however, has been taking a stand that the difficulties confronted on the American side should be given due consideration. At the strong desire of the Japanese Government, the Japanese manufacturers and exporters have decided to exercise self-restriction in exporting to the United States. The self-imposed restriction is in force. Accordingly, there is little likelihood the abnormal increase in exportation to the United States as occurred during the first semester of 1935 will be repeated in the future.

3. In view of the recent trend of recovery in general economic conditions in the United States the Japanese manufacturers and merchants seem to be justified in feeling that even such self-restriction is a great sacrifice on their part.

4. In the circumstances, it is hoped that the United States Government will, relying upon the self-restriction on the part of the Japanese manufacturers and merchants, not insist upon any positive restrictive measure at this moment.

611B.9417/106a

Text of Statement Released to the Press by the Secretary of Finance of the Philippine Government (Quirino), December 21, 1935 [10]

"Some time ago the customs service made a preliminary partial report of arrivals of Japanese textiles for the months of August, September, October and November at 20,053,371 square meters.

"These figures were preliminary estimate of arrivals of Japanese goods and are not at all the same thing as the regularly published statistics of imports of the Philippine Customs Service. The usual published statistics are based upon liquidations of import duties and not arrivals and they show 26,058,339 square meters of Japanese cotton piece goods imported in August, September and October. The fact that these figures are higher than statistics of arrivals is accounted for by the fact that some importers do not file their entries shortly after the arrival of the importing vessel, and occasionally even more than a month after the date of arrival, and also by the fact that delay occurs in the liquidation of entries due mostly to the absence of the

[10] Copy transmitted to the Counselor of the Japanese Embassy on December 21.

necessary shipping documents. Statistics of imports for August–October include considerable amounts of Japanese cloth which arrived prior to August 1st, during the period when such arrivals were unusually heavy.

"Statistics of arrivals have never before been compiled or published by the Philippine Customs Service. The compilation now being made for the four-months period August–November is still incomplete and the figures released by this office were considerably smaller than the amounts which will be shown by the completed figures.

"It is understood that the agreement between the United States Government and the Japanese Government provided that imports of Japanese cotton piece goods should be measured by the regular customs statistics of imports. The Philippine Government has been informed, however, that due to complications in administering the agreement arising out of the lag in the usual published statistics, representatives of the Japanese Government and the Government of the United States are conferring with respect to an adjustment of the basis of measurement of imports in the future."

611.946 Rag Rugs/116 : Telegram

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

WASHINGTON, December 24, 1935—2 p.m.

Please transmit the following to Kobe by mail:

"On December 7, the Department handed to the Japanese Ambassador a memorandum [11] substantially as follows:

'We understand your proposal with respect to exports of cotton rugs from Japan to the United States to be as follows: (1) the maximum amount of chenille rugs for the year beginning June 1, 1935, to be 700,000 square yards; (2) the maximum amount of hit-and-miss rugs for the year beginning June 1, 1935, to be 3,350,000 square yards; (3) the maximum amount of all other cotton rugs for the year beginning June 1, 1935, to be 4,070,000 square yards. We accept this proposal and will not press for any deduction from these figures for the special shipments of Japanese rugs during May 1935 so that we may not complicate the problem by further discussion of the working of the arrangement in the past.

We ask your cooperation, however, to prevent the creation in the future of such problems as a disagreement upon the measure of Japanese exports of cotton rugs or uncertainty as to the adjustment of quotas. Hence it is our suggestion that your Government arrange with the rug exporters' association for cooperation with the American Consulate at Kobe in a study of the preparation of statistics of such

---

[11] Not printed.

exports to the United States in order that agreement may be reached upon the basis of classification of these exports and the method of recording these statistics. It is our thought that it should be possible to avoid any discrepancies between the Japanese and the American figures if such an arrangement can be made soon and if, in addition, a representative of the Japanese exporters and a representative of the American Consulate at Kobe can compare their figures at the end of each month.

In view of your assurance that exports of cotton rugs from Japan are now being strictly controlled, it is our expectation that cooperation along the lines suggested above will in the future prevent any considerable discrepancy between the statistics compiled by the Japanese exporters and those recorded by the American Consulate at Kobe. If there should recur important differences in these figures we would desire to reopen the question of the proper measurement of rug shipments.'

On December 21, the Japanese Embassy informed the Department that the Japanese exporters' association was ready to cooperate with the American Consulate at Kobe in order that a study might be made toward the preparation of statistics of cotton rug exports to the United States, and that this cooperation would be retroactive to the first of June 1935. The Embassy stated 'According to our experience heretofore, the cotton rugs without certification of the Exporters Association were exported to the United States with the certification of the American Consulate. As a result the figures of the American Customs would show this amount while the figures of the Japanese Exporters Association would not, thereby causing a discrepancy in figures between the two countries. In such a case the Exporters Association was not in a position to control this.'

The Department desires that in accordance with the foregoing you confer with representatives of the exporters' association for the purpose of (*a*) preparing statistics of exports to the United States of the three above-mentioned categories of cotton rugs from June 1, 1935, to the present; (*b*) preparing such statistics monthly hereafter; (*c*) arriving at some method of measuring the discrepancy between the Consulate's figures and those of the association arising out of the fact that not all Japanese exporters belong to the association, and of offering suggestions as to how this discrepancy might be removed.

Dr. Frank A. Waring and Dr. Ben Dorfman, economists of the Tariff Commission, who are now in the Philippines, will be requested to confer with you en route to the United States, probably in January, with a view to working out the problems involved in the preparation of these statistics.

Your reports prepared in compliance with this instruction should be mailed to Shanghai for transmission by naval radio.

Please send copy of this instruction to the Consulate General at

Tokyo with request that the Consulates at Yokohama, Nagoya, and Nagasaki be notified for the purpose of obtaining effective cooperation."

CARR

611B.9417/157

Memorandum by Mr. Roy Veatch of the Office of the Economic Adviser of a Conversation With the Counselor of the Japanese Embassy (Yoshizawa)

[WASHINGTON,] December 26, 1935.

Mr. Yoshizawa asked to discuss with Mr. Veatch certain figures which the Embassy had received from Tokyo, so that the Ambassador might have the advantage of such informal discussion before he called upon Mr. Sayre to deliver the reply of his Government to the suggestion presented to the Ambassador by Mr. Sayre on December 14.

Mr. Yoshizawa stated that his Government had informed the Embassy that it would be glad to make a statement to the press, as suggested by this Government, to the effect that shipments of cotton piece goods to the Philippines would not be resumed until the first of February, 1936. But it was willing to take this action only if two conditions were met by the United States Government. First, that we should agree to measure imports of Japanese goods into the Philippines, for the first four months of the agreement, by Japanese export figures. Second, to use statistics of arrivals in the Philippines for the remaining part of the two years covered by the agreement.

Mr. Yoshizawa said that his Government considered Japanese export statistics to be the best guide to the amount of Japanese goods which had actually been imported into the Philippines since the effective opening date of the agreement, for the Foreign Office had been informed by the Japanese Consul General in Manila that the Philippine statistics were not only inappropriate, because of the lag of months in reporting imports, but were also inaccurate as a measurement of imports from Japan. His Government had transmitted the Japanese statistics of exports of cotton piece goods from Japan to the Philippines for the period August 1 to November 15, when shipments were halted, showing a total of 22,436,637 square meters. On this basis, the maximum for the first six months had not yet been reached.

Mr. Veatch called Mr. Yoshizawa's attention to the fact that even on the basis suggested by his Government, the total figure for that part of the period covered by the agreement which has already passed should be somewhat larger since it is estimated that shipments from Japan to the Philippines require about two weeks in transit. There should be added to the estimate of actual arrivals in the Philippines, as suggested by the Japanese Government, approximately 3,500,000 square

meters which probably were shipped from Japan to the Philippines between July 15 and August 1, all of this amount arriving in the Philippines after August 1 (Japanese exports of cloth to the Philippines totaled 6,900,000 square meters in July). Mr. Yoshizawa agreed to this addition.

Mr. Veatch went on to say however that it would be impossible for this Government to accept the Japanese interpretation and explained in detail the interpretation that American exporters and Philippine importers and all others in this country have of necessity placed upon the agreement since the agreement was based specifically upon Philippine import statistics.

Mr. Yoshizawa then explained in more detail the interpretation that Japanese exporters have placed upon the agreement, saying that they of course understood that the agreement provided that they might ship to the Philippines a maximum of 45,000,000 square meters each year of the two-year period. If the Japanese Government now had to go to the exporters and say that the agreement does not really work that way and that they will be allowed to ship much less than 45,000,000 square meters during the first year, it will be very difficult to secure the support of the exporters.

Mr. Veatch expressed sympathy for the position of the Japanese Government vis-à-vis the Japanese cotton textile exporters, but again impressed upon Mr. Yoshizawa the like problem of the American Government vis-à-vis the American exporters. It was not merely a problem of which set of statistics to use. The American exporters had understood that the purpose of the agreement was to increase to some extent the market in the Philippines for American textiles, and they had expected to be able to ship to the Philippines approximately as large an amount of cotton cloth during each of the two years as would be marketed there by the Japanese exporters. They now say that the agreement has failed completely to improve their position—they are receiving practically no new orders, and business is if anything worse than it was before the agreement was reached. Furthermore, it is understood that there is a supply of Japanese textiles already in the Philippines and on the shelves of dealers equal to the demand for something like four months, so that American exporters see no hope for any considerable improvement in their market in the Philippines before the Spring months, even if no further shipments are made this year by the Japanese exporters.

Mr. Yoshizawa spoke of the figure of 14,000,000 square meters contained in the typed statement which had been presented to the Ambassador by Mr. Sayre on December 14. He supposed that the position of this Government was that this entire amount of 14,000,000 square meters, representing what we termed "excess shipments" during the

five months preceding August 1935, should be subtracted from the quota for actual arrivals of Japanese goods during the period covered in the agreement. He pointed out however that if this amount should be added to the 26,000,000 square meters actually shipped into the Philippines since August 1 the total would equal 40,000,000 square meters, and even though the Japanese should take advantage of the 10 percent leeway allowed in their quota for the first year, they could ship into the Philippines during the rest of the first year no more than 9,500,000 square meters. This would amount to less than 2,000,000 square meters per month during the last six months of the first year, and it was his opinion that it would be very difficult for his Government to explain to the Japanese exporters why any such sacrifice should be made by them.

During this discussion it became clear, although Mr. Yoshizawa never made the statement in so many words, that the Japanese Government had interpreted the proposed agreement to the Japanese exporters as meaning merely a limitation of their shipments to the Philippines, during the two-year period, to a total of 45,000,000 square meters per year, and had been able to secure the agreement of the exporters on this interpretation.

Before Mr. Yoshizawa left, he agreed with Mr. Veatch on the following points:

(1) Even should statistics of arrivals or Japanese statistics of shipments be used, the maximum of 26,000,000 square meters for any six months period had already been reached and the Japanese would therefore be bound not to ship again until after January 15.

(2) The suggestion of this Government regarding the statement to be issued by the Japanese Government was reasonable, and the Japanese Government should be willing to do this much even before an agreement had been reached upon the figures to govern the rest of the two-year period. Unless this statement could be issued promptly, it would be too late for it to do any good.

(3) It is desirable to reach agreement as soon as possible upon the readjustment of the agreement so that a statement may be released respecting this readjustment, a statement which would among other things clear the Japanese of blame for any intention to break the agreement.

(4) Both the American Government and the Japanese Government face difficult problems in asking their textile exporters to accept any readjustment of the agreement and it is desirable therefore to make an adjustment which will make it possible for both Governments to make a good case to their exporters. If the United States should insist upon the letter of the agreement, it is probable that the Japanese exporters could not be held to the agreement and it would break down, but at the same time if the United States should yield entirely to the Japanese and the agreement be placed from the first upon statistics of arrivals, it is probable that American exporters and Filipino interests would be led to press for tariff action which also

would lead to scrapping the agreement. An adjustment should be made which will make it possible, from both ends, to maintain the agreement.

611B.9417/158

Memorandum by Mr. Roy Veatch of the Office of the Economic Adviser

[WASHINGTON,] December 27, 1935.

Conversation: The Japanese Ambassador;
Mr. Seijiro Yoshizawa, Counselor of the Japanese Embassy;
Mr. Sayre;
Mr. Coville;[12]
Mr. Veatch.

The Ambassador called to deliver the response of his Government to the suggestion presented to the Ambassador by Mr. Sayre on December 14, and to discuss the situation further.

Before setting forth the details of his Governments' reply, the Ambassador wished to say that he regretted that the Japanese Government had not agreed unconditionally to issue a statement that shipments to the Philippines would not be resumed before February 1, 1936. Irrespective of the discussion today or of action by the American Government, he intended to telegraph Tokyo immediately urging his Government to make such a statement.

The Ambassador said that apparently from the beginning there had been confusion with respect to the interpretation of the agreement, the United States having in mind the actual Philippine statistics based on liquidations, whereas the Japanese had taken it for granted that the Philippine statistics were based on arrivals. The Japanese Government, therefore, had requested him to ask the American Government to recognize arrivals of Japanese goods in the Philippines to the present time as the basis governing the agreement. Japanese export statistics checked substantially with the Philippine statistics of arrivals since August 1, showing a total of approximately 26,000,000 square meters already entered the Philippines and leaving, therefore, if this basis be accepted, a maximum of 23,500,000 square meters which might be shipped during the rest of the first year covered by the agreement.

In response, Mr. Sayre referred to the extreme position which this Government might take if it chose to hold to the letter of the agreement and emphasized the willingness of this Government to waive this position and to reach some adjustment of the agreement. American textile exporters were pressing this Government to demand strict

[12] Cabot Coville, Second Secretary of Embassy in Japan, temporarily at Washington.

adherence to the letter of the agreement, keeping the Japanese out of the Philippine market for the rest of the year so that American textiles might have the advantage during the next few months which Japanese textiles had already had during the first few months of the agreement.

The Ambassador presented a sheet of statistics, copy of which is attached,[13] analyzing the statistical position and showing that Japanese shipments might continue throughout the first year on the basis of arrivals, leaving the same total to be liquidated on August 1, 1936 which existed on August 1, 1935. Whereas, he recognized this was undesirable, he would like to stress the opportunity for the Japanese to ship textiles into the Philippines heavily during the last three or four months of the agreement period without such shipments being charged against the maximum amounts established by the agreement. He was quick to agree with Mr. Sayre, however, that such heavy shipments at the end of the agreement would be embarrassing to both countries if the agreement were to be extended past the two-year period, an objective which he felt the Japanese Government would wish to have in mind.

The Ambassador said "our trouble" is that Japanese exporters had been told that the agreement assured them the right to ship a maximum of 90,000,000 square meters during the two years. It would be difficult now to gain their assent to any other interpretation of the agreement. Speaking for himself, however, he thought it might be possible to divide the amount of Japanese textiles awaiting liquidation on August 1, 28,000,000 square meters, charging a total amount of 14,000,000 square meters against the Japanese for the first year of the agreement—adding the 14,000,000 to the total of 26,000,000 square meters which had arrived since August 1. A total of 40,000,000 would be considered as entered against the maximum amount allowed for the first year, 49,500,000 square meters. He wished to stress that he spoke only for himself and that this idea would have to be taken up with Tokyo before it could be advanced officially.

Mr. Sayre felt that agreement along this line might be quite possible and he suggested that this Government might be able to make some further concession to the Japanese by providing that the 50,000,000 square meters remaining, according to this reckoning, of the total quota of 90,000,000 square meters, might be divided equally over the next eighteen months, allowing one third of this amount, 13,333,000 square meters, to enter the Philippines during the second six months of the agreement, thus easing the rate of restriction which the Japanese would have to bear during the rest of the first agreement year. He urged,

[13] Not printed.

however, that the Japanese should agree to a regulation by quarters of total shipments remaining so that the charge could not be made that the Japanese would flood the market with large amounts of goods at the beginning of a semester or a year. Limitation by months would be even more satisfactory from the American point of view, but in view of seasonal fluctuations Mr. Sayre felt that quarterly restriction would be satisfactory.

U. S. Imports of Cotton Velveteens

Mr. Sayre said that there was one further problem with respect to imports of textiles into the United States which he wished to place before the Ambassador. Imports of cotton velveteens from Japan have increased at such a rapid rate and have become so large in comparison with United States requirements that domestic producers have become very much alarmed. It is understood that they intend to appeal to the President for restrictive action against velveteens imported from Japan, under Section 22 of the Agricultural Adjustment Act, and at the same time there is a distinct possibility that Congress will be asked to demand an investigation by the Tariff Commission under Section 336 of the Tariff Act.[14] Mr. Sayre was bringing these matters to the attention of the Ambassador because of his previous request that he be informed in advance if restrictive action against imports from Japan was to be contemplated. An investigation by the Tariff Commission under Section 336 would be particularly dangerous from the standpoint of the Japanese, since it is probable that such a cost-of-production study would show Japanese costs so much below American costs that an increase in duty would result, or possibly a shift to the American valuation of these imports as a basis for imposition of duty.

The Ambassador mentioned the fact that he had seen Mr. Murchison's statement in the paper, a statement which stressed the present competition of velveteens imported from Japan and mentioned the fear of increasing imports of corduroys. He stated that he would bring the situation to the attention of his Government. He then inquired as to the position of the American Government with respect to corduroys, the other cotton textile mentioned by Mr. Murchison. In response it was suggested that we did not wish to press the Japanese Government for any more restrictive action than was absolutely necessary and that we might be able to handle the corduroy question if an agreement on velveteens could be arranged.

A memorandum of statistics of imports into the United States of cotton velveteens, prepared in the Tariff Commission, was handed to the Ambassador (copies attached[15]).

---

[14] 46 Stat. 590, 701.
[15] Not printed.

On leaving, the Ambassador reasserted his intention to telegraph to Tokyo his suggested agreement regarding readjustment of the Philippine agreement and said that he would come again to discuss the matter as soon as he received a reply.

PROPOSED JAPANESE AUTOMOBILE LEGISLATION VIOLATIVE OF THE 1911 TREATY OF COMMERCE AND NAVIGATION BETWEEN THE UNITED STATES AND JAPAN

894.797/6 : Telegram

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

TOKYO, August 10, 1935—noon.
[Received August 10—4:29 a.m.]

165. Cabinet approved August 9th for submission to the next session of the Diet a draft bill for the control of the automobile industry with the following pertinent provisions.

1. The imposition of a license system for assembling automobiles and the manufacture of parts.
2. Licenses will be granted only to companies organized under Japanese law and whose majority of stock is held by Japanese subjects.
3. Companies already established will not be affected to the extent of present production capacity but any extension or expansion in equipment or output facilities will be subject to control under the new law.

Further details contained in despatch No. 1431 today's pouch.[16]
Please notify Department of Commerce.

NEVILLE

894.797/11

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

No. 882 WASHINGTON, November 18, 1935.

SIR: Reference is made to your despatch No. 1440 dated August 22, 1935,[16] in regard to the proposed legislation to place the automobile manufacturing industry of Japan under a system of control by means of licenses. The Department has given consideration to the relation of Article I of the Treaty of Commerce and Navigation of 1911 between the United States and Japan[17] to the proposed legislation, and it is of the opinion that the contemplated restriction on the production of motor vehicles by American nationals in Japan would, if enacted, be violative of the terms of that Treaty.

---

[16] Not printed.
[17] Signed at Washington, February 21, 1911, *Foreign Relations*, 1911, p. 315.

It is not improbable that the rejoinder of the Japanese Government to a contention that the proposed legislation would be a contravention of that Treaty will be that the rights granted to American citizens under Article I of the Treaty "do anything incident to or necessary for trade upon the same terms as native citizens or subjects", should be given its literal interpretation in the sense that, as Japanese subjects would not be permitted to operate automobile factories without restriction of output unless such factories are financially and administratively controlled by Japanese, the provisions of the proposed law would similarly require American nationals to operate their factories on the same basis. It would appear to be obvious, however, that such interpretation would not be tenable.

Although the Article under reference might have been more precisely phrased, it is the opinion of the Department that the Article as it stands lends itself to only one reasonable interpretation, and that is that American and Japanese nationals are to be placed on a footing of absolute equality in all matters pertaining to or incident to trade. American nationals appear now to be permitted to operate automobile factories in Japan on a basis of equality with Japanese nationals, in the sense that both American and Japanese nationals are permitted to operate their factories without restriction in regard to output and without condition as to the degree of financial control or of supervision over the factories to be exercised by any nationality. Should the proposed law become effective, Japanese subjects would be permitted to manufacture and distribute motor vehicles without limitation as to quantity whereas such limitation would be imposed on factories operated by American citizens, and there would consequently occur a denial of the right of equality of treatment. The Article under reference of the Treaty of 1911 was intended to prevent discrimination of this character.

Clear evidence of this fact is found in the original draft presented by the Japanese Government of the Treaty of 1911. Article I of that draft contemplated that

"The subjects or citizens of each of the High Contracting Parties . . .[18] shall, in all that relates to . . . the prosecution of their industrial and manufacturing undertakings, be placed, in all respects, on the same footing as the subjects or citizens of the most favored nation."

An arrangement of the character proposed was not acceptable to this Government and the present text of Article I of the Treaty, providing for national treatment instead of most-favored-nation treatment, was agreed upon. This circumstance alone should be sufficient to establish the validity of the contention that any law, such as the

[18] Omissions indicated in the original despatch.

proposed law, placing American citizens in a less favorable position than Japanese nationals in the operating of factories, would contravene the treaty provision under reference. However, if further support for that contention is necessary, it may be found in the practical interpretation of the Article independently of any comparison between the agreed upon draft and the original Japanese draft.

It would appear desirable that, in the Embassy's discussions of the matter with Japanese, the Embassy refrain from gratuitously making reference to the interpretation of Article I of the Treaty by courts in the United States, for the reason that any consideration of such decisions would involve reference to the disability of Japanese nationals to own land in the several States which have prohibited the ownership of land by aliens ineligible to citizenship. However, as suitable opportunities present themselves judicious use might be made of the fact that decisions of the courts in the United States have definitely recognized the treaty right of Japanese subjects to engage in trade in the United States on a basis of full equality with American citizens. Such a decision was made in the case of *Tashiro et al* vs. *Jordan*, decided by the Supreme Court of California in 1927 and reported in 256 Pacific, page 545. In that opinion the court referred specifically to part of the treaty article in question and said:

"But the right 'to carry on trade' in the specific lines of business mentioned in the treaty, such as conducting manufactories, warehouses, and shops and leasing lands for commercial purposes, is from the very terms of said treaty as extensive and complete as that enjoyed by native citizens or subjects. It would be difficult to frame language much more comprehensive than that found in the following provision of Article I of the treaty:

'and generally to do anything incident to or necessary for trade upon the same terms as native citizens or subjects'.

This language follows the provision enumerating the different classes of trade or business in which resident aliens are authorized to engage and must be read in connection with such provision, and as so read it gives to such aliens an equal standing with native citizens or subjects in the conduct of those enumerated classes of business which may be carried on by such aliens."

The judicial opinion above quoted is an express recognition that Article I of the Treaty of 1911 assures Japanese subjects full equality with citizens of the United States in carrying on trade in this country. The courts in the United States having confirmed to Japanese subjects in the United States the right to receive equal treatment with citizens of the United States in carrying on trade in this country, the American Government may with warrant expect that the Japanese Government will reciprocally accord similar treatment to American citizens in Japan.

The Department authorizes you to discuss orally and informally with the Foreign Office the proposed legislation and to inform the Foreign Office that in the opinion of this Government the enactment and enforcement of the proposed law would be a clear violation of the rights to which American nationals engaged in the business of manufacturing and distributing motor vehicles in Japan are entitled by the treaty article under reference.

Very truly yours, For the Secretary of State:
SUMNER WELLES

894.797/15 : Telegram

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

TOKYO, December 19, 1935—5 p.m.
[Received December 19—9 : 10 a.m.]

247. Department's 882, November 18, 1935, proposed Japanese automobile legislation.

1. The Embassy is informed that General Motors are negotiating with Japanese interests in regard to future manufacture in Japan. The General Motors men here are not in a position to disclose the exact nature of the proposition worked out by representatives of General Motors and the Japanese interests but it appears to have been formulated to some extent in anticipation of the proposed legislation. It has not yet received the approval of General Motors, the Japanese principals or the interested Japanese governmental authorities. The Embassy has suggested to the local manager of General Motors, who is sailing to-day for the United States, the desirability of the Company taking the Department fully into its confidence.

2. It is my opinion that this plan of General Motors, even if carried into effect, will not seriously weaken our basic treaty position and therefore I propose that the Embassy first take up the matter informally with Kurusu [20] in an exploratory way, requesting information in regard to details of the draft legislation and stating that our Government might consider such legislation as violative of treaty rights.

3. Does the Department approve?

GREW

894.797/15 : Telegram

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

WASHINGTON, December 24, 1935—1 p.m.

202. Your 247, December 19, 5 p.m.

---

[20] Saburo Kurusu, Chief of the Bureau of Commercial Affairs, Japanese Foreign Office.

1. The Department has no objection to exploratory conversations with Kurusu in regard to details of the draft legislation.

2. While leaving the matter to the Embassy's judgment, the Department inclines to the opinion that, if the proposed legislation conforms to the Embassy's 1440, August 22,[21] an oral statement as authorized in the final paragraph of the Department's 882, November 18, would be desirable.

CARR

PROPOSAL OF A CONSULAR CONVENTION BETWEEN THE UNITED STATES AND JAPAN [22]

711.9421/48

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

No. 677 WASHINGTON, January 28, 1935.

SIR: With reference to your despatch No. 1059 of November 16, 1934,[23] there is herewith transmitted a preliminary draft of a proposed consular convention with Japan.[24] This draft was prepared in the Department on the basis of the existing Treaty with Poland, signed at Washington in 1931,[25] and is in general similar to other treaties concluded in recent years with Germany, Norway, Finland, Cuba and other countries.

This draft has not as yet received the approval of the Department and is submitted to you at the present time for your confidential information and study. It is requested that you examine the draft, referring the matter to the Consul General, and report any suggestions or amendments that may appear advisable.

Very truly yours, For the Secretary of State:
WILLIAM PHILLIPS

711.9421/49

Memorandum by the Secretary of State

[WASHINGTON,] April 25, 1935.

The Japanese Ambassador called and stated that his Government was ready to enter upon negotiations with this Government to bring about a treaty or convention relating to consular functions somewhat along the order of certain conventions this government had with other

---

[21] Not printed.

[22] For previous correspondence on this subject, see *Foreign Relations*, 1934, vol. III, pp. 839 ff.

[23] Not printed; for enclosed memorandum of November 15, see *ibid.*, p. 841.

[24] Draft not printed.

[25] *Foreign Relations*, 1931, vol. II, p. 938.

governments. I replied that I was interested in his suggestion and appreciated his bringing up the subject; I added that I thought it had been mentioned casually at least on one or two former occasions, to which he agreed. At his further suggestion, I agreed to designate a suitable person in the Department to confer with one of his counselors at the Japanese Embassy on the proposed undertaking.

C[ORDELL] H[ULL]

711.9421/51

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

No. 1272 TOKYO, May 3, 1935.
[Received May 18.]

SIR: I have the honor to acknowledge the receipt of the Department's instruction No. 677, dated January 28, 1935, and the Department's telegraphic instruction No. 71, April 27, 2 p.m.,[26] with regard to a draft of a proposed consular convention with Japan, upon which the Department requests the suggestions of the Embassy and the Consulate General.

The draft convention was referred to the Consul General and his memoranda on the subject are enclosed herewith.[27] The proposed convention has also been studied by the officers of the Embassy, whose suggestions in regard to points on which it is believed some improvement might be effected are as follows:

1. Article V. While the Embassy agrees with the Consul General that it would be most desirable that the privilege of entry free of customs duty be extended to tobacco, if possible, it is difficult to see how this could be done under the present laws in Japan, which are so framed that only the Ambassador himself can legally import tobacco free of duty. If, however, the privilege of importing tobacco free of duty could be extended to consul officers, it is certain that the privilege would be greatly appreciated by the officers.

2. Article VI. It appears that the reference to "All taxes . . .[28] levied upon their persons or upon their property" might be more definite. It is almost certain that cases will arise in the future where consular officers will endeavor to extend the immunity to taxation to various indirect taxes, such as consumption taxes, excise taxes, motor-car licenses, fishing licenses, etc., giving rise to much trouble and discussion. It is suggested that the phrase "all direct taxes" might be more definite and tend to avoid misinterpretation.

---

[26] Telegram not printed; it reported the conversation of April 25.
[27] Memoranda not printed.
[28] Omission indicated in the original despatch.

3. Article VI, Comment. It is suggested in the comment that the privilege of exemption from payment of customs duties might be extended to officials of the Governments other than consular officers. While the Embassy has no doubt that the privilege would be greatly appreciated by the American officials stationed in Japan, where the customs duties are high, it appears probable that the granting of the privelege to too many people (some of whom have not been trained in the rigid codes which govern our Foreign Service Officers) might lead to scandals and trouble in the future. Moreover, it might not be advisable for the United States, with its strict laws against the importation of various articles, such as plants and narcotic drugs, to grant the privilege of free entry to too large a group of people.

4. Article XVI, page 19. The clause "so far as the laws of the country permit" in defining the right of a consul to take charge of the effects of one of his countrymen who dies intestate within his district, possibly may be necessary in order to accord with the laws of some of the States of the United States, but as far as Japan is concerned it appears possible that this qualifying clause might lead to difficulties. As a matter of general practice, the Japanese authorities are not only willing but glad to allow the American consuls to take charge of the effects of deceased American citizens, as they do not desire the labor of attempting to administer an estate, however small, belonging to a foreigner. At least one case is known to the Embassy, however, where the Japanese authorities, apparently for some reason of their own, endeavored to obtain possession of the effects of a highly-placed American who died in Japan. It therefore appears advisable, to clear up any ambiguity which may exist, to make it mandatory upon the local authorities to turn over charge to a consular officer of the effects of a fellow-countryman who dies intestate within the consular district.

Respectfully yours, JOSEPH C. GREW

711.9421/51½

Memorandum by Mr. William T. Turner of the Division of Far Eastern Affairs

[WASHINGTON,] June 7, 1935.

Conversation: Mr. Shun-ichiro Kawahara, Third Secretary, Japanese Embassy;
Mr. Dooman;[80]
Mr. Turner.

Mr. Dooman stated that although we had at this time no definite proposals to make, we wished to discuss in a general way the matter

[80] Eugene H. Dooman of the Division of Far Eastern Affairs.

of a consular convention. He stated that it was our understanding that the Japanese had been studying our Convention with Germany [31] with a view toward using it as the basis for discussion of the proposed consular convention with Japan.

Mr. Kawahara stated that the Japanese Embassy had been studying our Consular Convention with Germany, and produced a memorandum, a copy of which is appended hereto,[32] in which certain views in regard to necessary changes, and questions in regard to interpretation of terms, are set forth.

A brief and informal discussion of the points set forth in this memorandum revealed the fact that with one exception there is little which the Japanese suggest that would appear to be unacceptable to us. This exception is the matter, contained in II (2)*a*, of the inviolability of consular premises. Note, however, that the Japanese merely inquire as to the meaning of the word "inviolable" and whether the provision of the German Treaty containing that word is compatible with the Japanese law.

Mr. Dooman stated that there should be little difficulty in coming to agreement in regard to most of the points in this memorandum, but that he was not prepared at the moment to reply to all of the questions proposed in it.

Mr. Dooman then stated that although we had no proposals of a definitive nature we had certain suggested changes in mind which he would set forth. The suggestions, which he explained in some detail, are set forth in outline in the appended memorandum.[33] He stated that he would welcome a study of these suggestions and that if the Japanese Embassy cared to present drafts of amendments to the German Treaty we would be prepared to give such drafts study.

Mr. Kawahara agreed to consider these matters and to return for further discussion at a later time.

[Annex]

Outline of Suggestions [34]

1. It seems advisable to include a clause authorizing consuls to exercise such generally accepted functions and prerogatives as those relating to passports, visas, registrations, et cetera.

2. In view of the fact that it is the practice in Japan to issue an exequatur only to the principal officer assigned to a consulate, the

[31] Signed at Washington, December 8, 1923, *Foreign Relations*, 1923, vol. II, p. 29.
[32] Not printed.
[33] *Infra.*
[34] Prepared by William T. Turner of the Division of Far Eastern Affairs.

wording of the third paragraph of article XVII of the German Treaty should be changed to allow for the continuance of this practice.

3. It is suggested that a clause specifically entitling consular officers to the protection of the government of the receiving state and to the assistance of the local authorities to assure the free exercise of their functions, should be included.

4. If, as in the case of the German Treaty, free entry of property intended for consular officers is to be provided, the bearing of monopoly laws as regards tobacco, et cetera, should be definitely established.

5. It is suggested that a provision be made for the exemption from taxation of Government officials, other than consular and diplomatic officers, who are stationed abroad.

6. A clause providing for the inviolability of official communications and for the right of consular officers to communicate with their diplomatic representatives and with other consuls of their country, is suggested.

7. A clause providing for the taking by consular officers of depositions or testimony for use in the courts of their country is suggested.

8. A clause permitting consular officers to communicate with their countrymen at all times, especially when the latter are imprisoned or detained, is suggested.

9. So far as ascertained, the old Convention of May 17, 1880,[35] has not been terminated. A clause providing for the termination of this Convention and of the portion of the Treaty of 1911 [36] relating to consular officers, should be included.

711.9421/51½

Memorandum by Mr. William T. Turner of the Division of Far Eastern Affairs

[WASHINGTON,] June 26, 1935.

Conversation: Mr. Shun-ichiro Kawahara, Third Secretary, Japanese Embassy;
Mr. Dooman;
Mr. Turner.

Mr. Kawahara stated that he had reported to his Government the changes in the Polish treaty [37] suggested by officers of this Division as desirable in the proposed consular convention, and that he had been authorized to reply that there was no objection to the inclusion in the proposed convention of a paragraph reading

---

[35] Signed at Tokyo; William M. Malloy (ed.), *Treaties, Conventions, etc., Between the United States of America and Other Powers*, 1776–1909 (Washington, Government Printing Office, 1910), vol. I, p. 1024.

[36] Signed at Washington, February 21, 1911, *Foreign Relations*, 1911, p. 315.

[37] Signed at Washington, June 15, 1931, *Foreign Relations*, 1931, vol. II, p. 938.

"The provisions of this treaty shall not preclude the exercise by a consular officer of any function conferred upon him by the sending state and not forbidden by the law or the practice of the receiving state." (Page 2 of Department's draft.[38])

Mr. Kawahara stated that his Government desired that the wording of a suggested amendment to Article IV of the Department's preliminary draft which provides that

"(consular officers) shall have the right to the protection of the government of the receiving state and to the assistance of the local authorities to assure the free exercise of their functions" (Page 3 of Department's draft.)

be modified to read

"and they may ask for the protection etc."

Mr. Dooman suggested that an additional phrase reading

"and if there is no objection under local law they shall receive the protection etc."

be inserted in this clause.

Mr. Kawahara stated that with regard to the suggested provision to exempt officials exercising "essential governmental functions in the territory of the other High Contracting Party" from taxation (see page 8, Department's draft), the Japanese Government would prefer to effect a separate arrangement toward the same end. Mr. Dooman remarked that exemption from taxation of such officials could only be effected by statute or treaty, and that it seemed to him that these exemptions could more expeditiously be provided for in a treaty. Mr. Kawahara stated that he would give the matter further attention.

Mr. Kawahara stated that the Japanese Government had no objection to including a provision permitting consular officers to take depositions, but that it was desired that the wording of the provision suggested in the Department's preliminary draft (page 14), be amended to provide against compulsory testimony.

Mr. Dooman stated that the inquiries which Mr. Kawahara had made on his previous visit (see memorandum dated June 7, 1935) were being studied by the Department's lawyers and that as yet no reply to them could be made. Mr. Kawahara stated that he feared that too much importance had been ascribed to these inquiries, and that he desired merely an informal reply.

Mr. Turner inquired whether the Embassy was preparing a preliminary draft of the convention. Mr. Kawahara stated that the Foreign Office was studying our treaty with Poland and was preparing a draft with suggested amendments for submission to the Department.

---

[38] Not printed.

711.9421/51½

Memorandum by the Assistant to the Legal Adviser (Ward) to Mr. Eugene H. Dooman of the Division of Far Eastern Affairs

[WASHINGTON,] June 28, 1935.

The following informal observations are submitted in regard to the several inquiries contained in the informal memorandum from the Japanese Embassy, attached hereto,[39] relating to certain provisions of the treaty between the United States and Germany concluded December 8, 1923. The observations are numbered to conform to the numbers of the inquiries in the memorandum.

II (2) (*a*) It would seem to be difficult to formulate a clearer or more comprehensive interpretation of the word "inviolable" as used in Article XX of our treaty with Germany than the language of the second paragraph of that article, which reads as follows:

"The consular offices and archives shall at all times be inviolable. They shall under no circumstances be subjected to invasion by any authorities of any character within the country where such offices are located. Nor shall the authorities under any pretext make any examination or seizure of papers or other property deposited within a consular office. Consular offices shall not be used as places of asylum. No consular officer shall be required to produce official archives in court or testify as to their contents."

The quoted language permits of no exception whether on the plea of "urgent necessity" or otherwise and it appears to be clear that the provisions of Article 131 of the "Specimens of Judicial police service" referred to in the note from the Japanese Embassy are irreconcilable with the provisions of the treaty under reference insofar as concerns consular offices and consular archives.

It will be noted, however, that the quoted provision prohibits the "invasion" of consular offices and archives. It would not be an "invasion" of the consulate if the local authorities were invited to enter the consular office to prevent the execution of a crime or to arrest a person who had unlawfully entered the consulate. The local authorities could not, however, forcibly enter the consulate against the wishes of the officer in charge without violating the treaty provision in question.

It is hardly necessary to add, however, that the treaty provision under reference would not be likely to be invoked by any government to prevent the performance of any necessary official function not inconsistent with the purpose and spirit of the treaty.

II (2) (*b*) Strictly interpreted, the provision of Article XX of the German-American treaty, to which this inquiry of the Embassy

[39] Not printed.

relates, supports the view expressed by the Embassy to the effect that the words "other property deposited within a consular office" refers to all and any property of every description placed within a consular office and is not limited to the property which has to do with the conduct of consular business. Article III of the Franco-American Consular Convention of 1853,[40] providing for inviolability of consular offices, apparently was so interpreted by both the American and French Governments in a case involving the acceptance by the American Consul at Nice of private property of an American citizen in order to prevent its attachment in legal proceedings. Upon request of the French Government the Government of the United States instructed the Consul to return the property to its owner and to notify the French authorities when delivery was to be made (*Consular Privileges and Immunities*—Stewart, page 37).

It is highly improbable, however, that such a case would now arise in view of the clear understanding of consular officers that the consulate is not to be used as a depository of private property not received in connection with a legitimate consular function.

II (2) (*c*) The Japanese Embassy states its understanding of the word "archives" as used in Article XX of the German-American treaty as not including "mail matter sent by private persons to the consulate and which is still on the way", and inquires whether that interpretation also applies to "mail matter in transit sent by the government or by governmental agencies".

I have not found any discussion of this question and I think we should refrain from discussing it with the Embassy. Insofar as concerns private matter deposited in the mail addressed to a consulate and intended to form part of the consular archives, I am inclined to believe that it would not be extreme to suggest that such matter be regarded as part of the consular archives from the time of its deposit in the mail. It is apparent, however, that in the absence of a general agreement on the subject it would be difficult, if not impossible, to obtain recognition for such a doctrine. There would appear to be stronger ground in favor of the adoption of the rule in cases involving the mailing of official communications from a government to its consular representatives but any discussion of that question in the case of official mail appears to be unnecessary in view of the fact that communications from a government to its official representatives in a foreign country are generally regarded as inviolable.

II (4) The words "estates in process of probate" as used in Article XXV of the German-American treaty clearly appeared to include estates in process of administration.

---

[40] Hunter Miller (ed.), *Treaties and Other International Acts of the United States of America*, vol. 6, p. 169.

II (5) The provisions of the federal laws authorizing the performance of notarial acts by diplomatic and consular officers are contained in Section 1750 of the Revised Statutes which reads in part as follows:

"Every secretary of embassy or legation and consular officer is hereby authorized whenever he is required or deems it necessary or proper so to do, at the post, port, place, or within the limits of his embassy, legation, or consulate, to administer to or take from any person an oath, affirmation, affidavit, or deposition, and to perform any notarial act which any notary public is required or authorized by law to do within the United States. Every such oath, affirmation, affidavit, deposition, and notarial act administered, sworn, affirmed, taken, had, or done, by or before any such officer, when certified under his hand and seal of office, shall be as valid, and of like force and effect within the United States, to all intents and purposes, as if administered, sworn, affirmed, taken, had, or done, by or before any other person within the United States duly authorized and competent thereto. . . ." (Title 22, Section 131, U. S. Code)

The authorization contained in the above quoted provision must be regarded, however, as limited in legal effect to territories or agencies under the control of the Government of the United States and not binding in the several states except in conformity with applicable state laws or judicial decisions.

II (6) (*a*) This inquiry in regard to the meaning given to the word "misdemeanor" in the several states could be answered authoritatively only by an examination of the provisions of the laws of the several states, which does not appear to be essential for the consideration of the inquiry. It is suggested, therefore, that the Embassy be informed that an examination of a somewhat representative group of states discloses that the laws of all of the states considered define felonies as crimes punishable either by sentence of death or by imprisonment in a state penitentiary, and that all other crimes are characterized as misdemeanors. It is believed that this is the general rule throughout the United States with possibly some few exceptions.

It may be of interest to quote the federal definition of "felonies" and "misdemeanors" which is as follows:

"All offenses which may be punished by death or imprisonment for a term exceeding one year shall be deemed felonies. All other offenses shall be deemed misdemeanors." (Title 18, Section 541, U. S. Code)

I (6) (*b*) Since the German-American treaty does not provide that the German text of the treaty has any greater authoritative force than the English text, it follows that the English text will be exclusively auhoritative in the consideration of crimes committed in the United States by German consular officers. The English text of Article XX of the treaty leaves no doubt as to the question whether in a particular

case a consul is entitled to immunity from arrest. The pertinent language of the English text reads "shall be exempt from arrest except when charged with the commission of offenses locally designated as crimes other than misdemeanors". (Underscoring added) By virtue of the quoted provision, if the crime with which a consular officer is charged was defined in the law of the place where the crime was committed as a "misdemeanor", the consul would be exempt from arrest. Otherwise not. Incidentally it may be observed that the maximum punishment provided in Germany for offenses coming under the definition "Vergehen" is not as severe as the maximum punishment provided for misdemeanors in New Jersey and possibly other states.

While the foregoing observations are believed to be substantially warranted, I am of the opinion that we should refrain from communicating them in definite form, even informally, to the Japanese Embassy. In addition to the fact that the inquiries are based on provisions of a treaty to which Japan is not a party and which may or may not be incorporated in the proposed Consular Convention with Japan, it is proper to observe that the authoritative interpretation of the provisions in the United States is ultimately a matter for determination by the federal judicial tribunals and that administratively the Department of State could not be bound in any authoritative degree by the informal views of the negotiators of this preliminary draft. It would seem to be prudent, therefore, to emphasize that any views which may be expressed on the several questions submitted in the Embassy's note are informal, unofficial and tentative.[41]

711.9421/51½

Memorandum by Mr. William T. Turner of the Division of Far Eastern Affairs of a Conversation With the Third Secretary of the Japanese Embassy (Kawahara)

[WASHINGTON,] July 15, 1935.

Mr. Kawahara called to discuss the proposed consular convention with Japan. He stated that the Embassy had received instructions from the Foreign Office to the following effect:

1. The Japanese Government does not wish to have included in the proposed consular convention the provision (See Article XXVI of the Convention with Poland) providing for the inspection by consular officers of private vessels destined for ports of the appointing country in connection with the issuance of bills of health, for the following reasons:

---

[41] An attached note by William T. Turner of the Division of Far Eastern Affairs dated July 1 states: "Mr. Kawahara called today and was informed of the sense of the Legal Advisor's observations."

a. Japanese Consular Officers do not inspect foreign vessels clearing for Japan nor do they issue bills of health, therefore, this provision is unilateral in its character.

b. Articles 49 and 57 of the International Sanitary Convention of 1908 [*1903*] [42] recommends the gradual abolition of bills of health. The inclusion of this provision in the consular convention seems, therefore, to be contrary to the spirit of that Convention.

c. Since there are no laws in Japan prohibiting consular officers from issuing bills of health, American Consular Officers may exercise their functions with respect to bills of health without specific authority under the general provisions of the suggested addition to the proposed convention with Japan which reads: "The provisions of this treaty shall not preclude the exercise by a consular officer of any function conferred upon him by the sending state and not forbidden by the law or practice of the receiving state".

2. Mr. Kawahara stated that on the occasion of his previous call he had informed Mr. Turner that the Japanese Government would accept the inclusion of a provision to permit consular officers to take the voluntary depositions or testimony of the nationals of any country for use in legal proceedings in the territory of the sending state. He stated that he had now received information from his Government that it would prefer that the words "of the nationals of any country" be changed to "of their own nationals." Mr. Turner asked whether the Japanese Government would consent to the inclusion of a clause permitting testimony to be taken from the nationals of any country in case application therefore should be made to the Attorney General or Minister of Justice. Mr. Kawahara stated that he would make further inquiries and reply at a later time.

3. Mr. Kawahara stated that with regard to the suggested provision to the effect that "consular officers shall have the right to communicate with and to advise nationals of the sending state within their consular district; to visit such nationals, especially when they are imprisoned or detained by officers of the receiving state", the Japanese Government finds it absolutely necessary to insert a modifying clause such as "in accordance with the provisions of the law of the receiving state". Mr. Turner stated that due to the frequent misunderstandings which have arisen from the detention incommunicado in Japan of American citizens—misunderstandings which often could have been avoided by a simple explanation by consular officers—we were particularly desirous of providing that consular officers should be free to visit their nationals at any time. He pointed out that Japanese Consular Officers in this country are, under American laws, free to communicate with their nationals at all times and that, therefore, the application of a clause of this kind would in effect

---

[42] Signed at Paris, December 3, 1903, *Foreign Relations*, 1907, pt. 1, pp. 434, 447, 451.

be unilateral. He requested that this matter be given further consideration by the Japanese authorities.

Mr. Kawahara stated that he would report the views which Mr. Turner had expressed to his Government and would make a reply as soon as possible.

711.9421/514

Memorandum by Mr. William T. Turner of the Division of Far Eastern Affairs of a Conversation With the Third Secretary of the Japanese Embassy (Kawahara)

[WASHINGTON,] July 17, 1935.

Mr. Kawahara called to discuss a suggested provision in the proposed consular convention which would provide that Article III of the Treaty of Commerce and Navigation between the United States and Japan of 1911 (which relates to consular officers) be superseded and supplanted. Mr. Kawahara stated that his Government did not favor the cancellation of this Article; that he had not been informed of the reason for this attitude; but that in his opinion it was likely that the Japanese Government wished to retain the provision which reads as follows:

"The Government issuing exequaturs or other authorizations may in its discretion cancel the same on communicating the reason for which it is thought proper to do so."

I replied that in my opinion it appeared desirable to incorporate all treaty provisions affecting consular officers into one convention, and that desirable portions of previous treaties relating to consular officers might well be included in the new convention.

Mr. Kawahara stated that he would take up this matter again with his Government.

I asked Mr. Kawahara if he would have objection to our Embassy in Tokyo discussing certain phases of the proposed convention with the Foreign Office in Tokyo. I said that in some instances it might be possible for the Embassy to clarify our view in regard to certain matters in a more satisfactory manner than could be done telegraphically by the Japanese Embassy.

Mr. Kawahara replied that he saw no objection but would like to consult Mr. Miura [43] in regard to this point before making a definite answer.

---

[43] First Secretary of the Japanese Embassy.

711.9421/51½

Memorandum by the Consul General at Tokyo (Garrels) [44]

[TOKYO,] July 23, 1935.

This morning Mr. Matsudaira of the Treaty Division of the Foreign Office called to discuss with the undersigned certain matters relating to the proposed Consular Treaty between Japan and the United States. He brought with him a printed copy of the Treaty between the United States and Poland which the Foreign Office is evidently using as a basis for drafting their proposed treaty.

The particular point at issue comes under Article IV of the Polish-American Treaty and is as follows:

"Consular officers, nationals of the State by which they are appointed, shall be exempt from arrest except when charged with the commission of offenses locally designated as crimes other than misdemeanors and subjecting the individual guilty thereof to punishment."

It appears that the Polish Treaty has been submitted to the Ministry of Justice for their opinion and they have requested the Gaimusho to secure an interpretation of what "crimes other than misdemeanors" consist. I explained that under the terms of the treaty as quoted above this would probably depend from the American viewpoint upon the laws of the States in which the alleged crime was committed. However, that, according to the United States code a crime other than a felony was a misdemeanor and that a felony was defined as a crime, the punishment for which was death or imprisonment for over one year. According to Bouvier's Law Dictionary and Webster's Standard Dictionary, the general practice of the American states was to consider as felonies all crimes involving as punishment either death or imprisonment in the State penitentiary.

Mr. Matsudaira's main point, however, was not to discover how Japanese officers would be treated in the United States, but what immunities could be claimed by American consular officers in Japan. For instance, the Justice Ministry had inquired as to whether the above-quoted treaty provisions, if adopted, would exempt consular officers from arrest for taking pictures in a fortified zone. I replied that I should personally believe that it would depend upon the applicable provisions and penalties of Japanese law, that I thought that objection would not be raised to the Japanese Government's adopting the definition of "crime" and "misdemeanor" adopted by our own Federal Government and that consequently if the violation of the fortified zone law by the taking of pictures carried a penalty

[44] Unsigned copy transmitted to the Department without covering despatch; time of receipt not indicated.

of over a year in jail it could be considered as a crime other than a misdemeanor and consequently consular officers could be arrested for such an offense.

Mr. Matsudaira requested a list of crimes which would be considered felonies. I furnished him with a list taken from the U. S. Code and Webster's dictionary.

711.9421/51½

Memorandum by the Consul General at Tokyo (Garrels) [45]

[Tokyo,] July 25, 1935.

At the time of previous conversations, Mr. Matsudaira requested advice upon American consular practice and law which might elucidate certain provisions of the Polish-American Consular Treaty. Among such points were:

"Article VI. Consular officers, including employees in a consulate, nationals of the state by which they are appointed other than those engaged in private occupations for gain within the state where they exercise their functions, shall be exempted from all taxes."

The point here raised was that the Japanese Ministry of Finance was prepared under existing law to grant exemption from taxation to American consular officers equivalent to the grade of Japanese consular officer[s] and chancellors, but not to other employees. It appears that in every Japanese consulate the Japanese employees are of three classes, officers, chancellors, and ordinary employees. That chancellors, while not able to receive promotion into the officer grades are, nevertheless, in a career service and must pass examinations. He requested information upon what would be a similar grade in our service. I replied that we did not have an exactly similar grade, but that our clerks could be considered as approaching this class, that not all of them had passed examination, but that the majority had and that they were in a classified career service with definite rankings, et cetera. He had been informed on this point and said that the Foreign Office would be pleased to interpret the grade of Senior Clerk as being equivalent to Chancellors, but not the junior grade. I replied that the difference between Junior and Senior grade was one of seniority and promotion and that the Junior grade could be considered as much of a career service as would the senior grade.

Mr. Matsudaira replied that the Foreign Office had no objection to the treaty provision as quoted, but that the Ministry of Finance was objecting to the inclusion of all employees, American citizens. It was pointed out by me that clerks in consulates were not now taxed

---

[45] Unsigned copy transmitted to the Department without covering despatch; time of receipt not indicated.

in Japan, but he replied that before this was done as a courtesy and not as a treaty right—that the Finance Ministry was afraid to grant rights which might be taken advantage of by messengers, janitors, et cetera.

It was my impression that if the proposed draft contains the reading as given in the Polish Treaty objections will be brought up, but that if the exemption were limited to clerks, chancellors and officers, these terms being defined by an exchange of notes, no objection would be raised by either the Foreign Office or the Ministry of Finance.

Another point raised, although it did not appear to be considered of serious import, was that covered by Article XX of the Polish American Treaty providing for the right to inspect vessels about to depart for the ports of the other contracting power for sanitary purposes to enable the consular officer to execute bills of health, et cetera. It was stated that Japan had recently become a party to an international convention under which bills of health issued by consular officers were no longer required, those issued by the Master of the Port being considered sufficient. Consequently, it was believed difficult to compel masters of vessels to allow consular officers to inspect their vessels so as to issue consular bills of health, when the Japanese Government itself no longer required such documents. It was pointed out that as long as American law required consular bills of health it is to the advantage of the Ship's Master to allow his vessel to be inspected upon request in order to alleviate trouble upon arrival at a United States port. Mr. Matsudaira did not press the point and did not seem to consider that the question was important.

During our several conversations I asked Mr. Matsudaira about several other points covered in the Polish Treaty and which according to our proposed draft (not exhibited to the Foreign Office) would be covered in the new treaty. He seemed to believe that there would be no difficulty about amending the regulations of the Tobacco Monopoly to permit consular officers to import tobacco free of duty. Likewise, he informed me that the Foreign Office in its proposed draft intended to provide for the right of taking testimony provided that the deponents appear voluntarily.

711.9421/51a

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

No. 865 WASHINGTON, October 28, 1935.

SIR: It has been suggested that there be incorporated in the proposed consular convention between the United States and Japan, which was the subject of the Department's instruction No. 677 of January 28,

1935, a provision which would permit of the visit at any time by consular officers to their nationals accused of a criminal offense, who may be under arrest or confinement.

In this connection a search of the Department's files has revealed that the Legation at Tokyo reported in its despatch No. 240 of January 16, 1899,[46] that Mr. Buck, the American Minister, handed a memorandum to the Japanese Minister for Foreign Affairs in which it was pointed out that since Japanese subjects in the United States are accorded certain privileges of counsel while in confinement, the according of like privileges to American citizens in Japan would be received with gratification. The Legation's despatch No. 245 of January 23, 1899,[46] reported that the British Legation in Tokyo had made similar representation to the Japanese Government.

A search of the archives of the Department reveals no record of the receipt of any further communications in regard to this subject. It is therefore requested that a search be made of the archives of the Embassy in order to determine whether or not a reply to the memorandum under reference was received by the Legation. It is requested that copies of any documents relating to this subject, other than those referred to above, which may be found, be furnished to the Department.

Very truly yours, For the Secretary of State:
WILLIAM PHILLIPS

711.9421/52

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

No. 1577 TOKYO, December 6, 1935.
[Received December 30.]

SIR: I have the honor to refer to the Department's instruction No. 865 of October 28, 1935, stating that it had been suggested that there be incorporated in the proposed consular convention between the United States and Japan a provision which would permit of a visit at any time by consular officers to their nationals accused of a criminal offense, who may be under arrest or confinement. The instruction further referred to despatch No. 240 of January 16, 1899, from Mr. Buck, then American Minister to Japan, in which it was stated that the Minister had handed a memorandum to the Japanese Minister for Foreign Affairs on this subject, and to despatch No. 245, of January 23, 1899, from the Legation in Tokyo, reporting that the British Legation had taken similar steps. A thorough search of the archives of the Embassy indicates that no reply was ever received to Mr. Buck's

[46] See Department of State Despatches, Japan, vol. 72.

note to the Minister for Foreign Affairs. There appear to be no documents in the Embassy bearing on the subject other than those already forwarded to the Department.

In this connection, it may not be amiss for me to point out that there would very probably be difficulties in inducing the Japanese to incorporate in a consular convention, a provision such as that suggested to the Department. Before concluding a treaty, it is the practice of the Japanese Government to examine carefully all the domestic legislation in force, and to conclude no international agreement which is likely to contravene any portion of it. If the subject matter of the proposed treaty is of sufficient importance to justify the step, a project to amend the domestic legislation affected is first introduced into the Diet. If no legislation is affected, but the proposed treaty requires it, the legislation to make the treaty effective is introduced subsequently or an Imperial Ordinance is issued for the purpose.

A proposal to permit a consular officer to visit an accused person would require an amendment to the Code of Criminal Procedure, or at least, some action on the part of the Government to curb the powers of the Procurators or examining magistrates. It seems unlikely that the Japanese Government would be willing to precipitate a political discussion on this subject at the present time.[47]

Respectfully yours, EDWIN L. NEVILLE

PROPOSED LEGISLATION IN THE STATE OF ARIZONA AFFECTING RIGHT OF JAPANESE NATIONALS TO CULTIVATE AGRICULTURAL LAND[48]

811.5294/571 : Telegram

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

WASHINGTON, February 23, 1935—3 p.m.

25. On February 14, the Japanese Ambassador[49] called on the Secretary and expressed concern in regard to a bill, a copy of which he supplied to the Department, pending before the Arizona State Legislature which does not distinguish between denying to an alien ineligible to citizenship the right to own or lease agricultural land and denying to such alien the right to prepare or cultivate such land. In view of decisions of the United States Supreme Court affirming the

---

[47] Further discussion in 1936 and 1937 of proposed articles of a consular convention led to no result.

[48] For correspondence on protection of Japanese lives and property in the State of Arizona, see *Foreign Relations*, 1934, vol. III, pp. 690 ff.

[49] Hirosi Saito.

principle that "the right to work for a living in the common occupations of the community is of the very essence of the freedom and opportunity that it was the purpose of the (14th) Amendment to secure", we have doubts in regard to constitutionality of those provisions of the bill which would deny to aliens ineligible to citizenship the right to cultivate agricultural lands.

Among the several reasons which give us concern in the event of the bill being enacted is the probability that similar legislation would be enacted in California and other states in which there are large numbers of Japanese. We are endeavoring discreetly and by confidential methods to induce withdrawal or other appropriate disposal of the bill, or of modification thereof to meet objections of the character above indicated.

If you should consider it necessary to disclose any of the foregoing to the Minister for Foreign Affairs,[50] please impress upon him the importance of keeping it confidential, especially our efforts above indicated.[51]

PHILLIPS

811.5294/578 : Telegram

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

WASHINGTON, February 28, 1935—6 p.m.

28. Department's No. 25, February 23, 3 p. m. The Japanese Ambassador called at the Department today and stated that he had been instructed to ask what is being done in regard to legislation pending in the Arizona Legislature which would affect Japanese nationals. He was informed that we are doing everything that we appropriately can toward favorably affecting the situation, but that if the fact and the nature of our efforts were to become known the effect would be to defeat the efforts themselves.

Please in your discretion inform the Minister for Foreign Affairs orally and in strict confidence that it is a delicate matter for the Federal Government to intrude into questions of the making by the States of their own laws; that the Federal Government is not indifferent and is doing all that it appropriately and discreetly may; and suggests that, in meeting interrogations in the Diet, it would be inadvisable for Hirota to give any specifications.

PHILLIPS

---

[50] Koki Hirota.

[51] The Ambassador in Japan in his telegram No. 39, February 25, 11 a.m., reported that the Japanese Minister for Foreign Affairs had not yet approached him on this subject (811.5294/575).

811.5294/579 : Telegram

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

TOKYO, March 2, 1935—noon.
[Received March 2—2 : 17 a.m.]

42. Department's 28, February 28, 6 p. m. Instructions in paragraph 2 were carried out this morning. The Minister said that he fully understood the considerations set forth and had had them in mind in answering questions both in the Diet and from the press. He assured me that he would continue to avoid giving specifications.

I did not touch on the point of constitutionality.

GREW

811.5294/587

Memorandum by the Chief of the Division of Far Eastern Affairs (Hornbeck) of a Conversation With the Counselor of the Japanese Embassy (Fujii)

[WASHINGTON,] March 19, 1935.

Mr. Fujii called and said that the Japanese Embassy had received a telegram stating that the land law which has been under consideration in the Arizona Senate has been passed by the Senate and was to be considered in the House of Representatives this morning, and that there was a strong sentiment in the House in its favor.

Mr. Fujii suggested that the Department make some move in the matter.

I remarked that this bill is apparently the less objectionable of the two bills that have been under discussion. Mr. Fujii said that such was the case. I said that it is a delicate matter for the Federal Government to intrude into the affairs of a state, especially those of a state legislative body. Mr. Fujii said that he realized this. I said that I would report the matter and that the Department would of course do whatever it conceived to be appropriately possible.

811.5294/588

Memorandum by the Chief of the Division of Far Eastern Affairs (Hornbeck) of a Conversation With the Counselor of the Japanese Embassy (Fujii)

[WASHINGTON,] March 19, 1935.

After giving me an account of the Arizona situation, Mr. Fujii said that the Japanese Embassy had been informed that a member of the House of Representatives in California, a Mr. Walker, had introduced in the House a bill which would make it more difficult for Japanese to

do work in California. I inquired whether it would apply to Japanese or to all aliens. Mr. Fujii said that it would apply to Japanese under the "ineligible to citizenship" formula. He said that he had no details. He said that the Ambassador asked that the Department do what it could to prevent the passage of such a bill.

I replied as I had replied in regard to the Arizona situation, and I said that in connection with such matters it is necessary to envisage our form of government and a separation of authority between the states and the Federal Government; also the concept which our people have of governmental functions, as between national and local regulation; and that it must be remembered that the efforts of the Federal Government in some instances in the past to interfere with the course of legislation in states has sometimes resulted only in making matters worse. Mr. Fujii mentioned Mr. Bryan;[52] he said, however, that if these laws were passed the impression in Japan would be very bad and that this therefore was an international matter and of concern to the Federal Government. I said that the Department, in relation to such matters, would do what it considered appropriately possible.

811.5294/593a : Telegram

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

WASHINGTON, March 22, 1935—7 p.m.

45. United Press report from Arizona today states that the Arizona State Legislature adjourned yesterday and that the alien land bills died on the calendar.

HULL

811.5294/596

Memorandum by the Under Secretary of State (Phillips)

[WASHINGTON,] March 27, 1935.

The Japanese Ambassador translated for me the text of a message which he had just received from Foreign Minister Hirota instructing him to express the thanks and appreciation of the Japanese Government to the Department for the efforts which were made with respect to the anti-Japanese legislation in Arizona. Mr. Hirota had noticed that the two anti-Japanese measures, which had been causing him much concern, had failed to pass and, therefore, there would be no further measures contemplated until, at least, the next meeting of the Legislature. Mr. Hirota had appreciated the attitude of the Department; he, on his part, had been careful to avoid any reference in the

---

[52] William Jennings Bryan, Secretary of State, 1913–15; see Japanese protest against land laws of California, *Foreign Relations*, 1913, pp. 625 ff.

Diet to the Arizona situation. Mr. Hirota was, however, somewhat fearful that trouble might break out in Arizona and hoped that the United States Government would do everything possible to prevent any such occurrences. I thanked the Ambassador for the message, which I said was appreciated; that he realized, of course, the delicacy of the relationship of the Federal Government with the State of Arizona, and that I felt sure that the Governor of that State would do everything in his power to prevent difficulties from arising between the foreign and local communities.

WILLIAM PHILLIPS

DISINCLINATION OF JAPAN TO NEGOTIATE A CONVENTION WITH THE UNITED STATES REGULATING FISHERIES OFF THE COAST OF ALASKA

894.628/108

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

No. 639 WASHINGTON, November 19, 1934.

SIR: Reference is made to the Embassy's despatch No. 247, under date September 8, 1930,[53] in regard to Japanese fishing activities in the Bering Sea and certain waters off the Alaskan Coast. The question has again been raised in regard to the advisability and timeliness of negotiating a treaty with Japan, whereby all Japanese nationals would refrain from engaging in any salmon packing in the waters of Bering Sea and Bristol Bay east of a line from Cape Avinof near the west entrance to Kuskokwim Bay to Cape Sarichef at the west end of Unimak Island. In this connection, documents, as listed below,[54] bearing upon the subject of the protection of the Alaskan salmon fishing industry are enclosed for your information.

Owing to its present exposed state, the best interests of the Alaskan fishing industry appear to make important the negotiation of a protective treaty; and there seems good reason to have such a treaty concluded before Japanese interests will have made substantial investments looking to salmon fishing operations in the area defined. The Department has no evidence that Japanese salmon packing operations in Alaskan waters are an immediate prospect, but desires to provide safeguards against such an eventuality.

The Department is not at this time prepared to institute actual negotiation of a treaty of the kind herein described or to authorize the Embassy to approach the competent Japanese authorities, but desires

---

[53] Not printed.

[54] None printed; they consisted of correspondence with the Department of Commerce and the U. S. Tariff Commission.

to receive an expression of the views of the Embassy in regard to the advisability and timeliness of approaching the Japanese Government in the matter. In the meantime, it is requested that the information contained in the documents supplied, herewith, be treated as confidential; and that should the Embassy's reply to the question herein raised be in the affirmative, the Embassy make reply by telegraph.

Very truly yours, For the Secretary of State:
WILLIAM PHILLIPS

894.628/118

The Secretary of the Navy (Swanson) to the Secretary of State

(SC)QS1/EF37 WASHINGTON, January 19, 1935.

SIR: Enclosures (A) and (B)[55] are forwarded as a matter of interest to the Department of State.

Information, in the files of the Navy Department, shows conclusively that the Japanese Fishing Vessels already engaged in fishing on our coasts are in many cases equipped with long range radio, and when the Fleet goes out for exercises they are stationed so that the exercises are observed. They have also been known to make contact with Japanese vessels at sea. Some members of the crew of these vessels are not of the fisherman type. Should the situation as outlined in Enclosure (A)[56] materialize the present situation would be aggravated and the National Defense would be jeopardized.

Respectfully, CLAUDE A. SWANSON

894.628/118

The Secretary of State to the Secretary of the Navy (Swanson)

WASHINGTON, January 26, 1935

MY DEAR MR. SECRETARY: I acknowledge the receipt of your letter of January 19, 1935 (reference (SC)QS1/EF37), bringing to my attention certain considerations arising out of the fact that Japanese fishing vessels engaged in fishing on the Pacific Coast are equipped with long range radio.

An officer of this Department has brought this matter informally to the attention of the secretary of the interdepartmental committee that has been set up to consider ways and means to regulate vessels in the fisheries and it is understood that the secretary will present the matter to the committee for its consideration.

Sincerely yours, CORDELL HULL

---

[55] Neither printed.

[56] This referred to Japanese lobster fishing in Mexican waters off Lower California.

894.628/108 : Telegram

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

WASHINGTON, March 8, 1935—6 p.m.

35. Department's instructions No. 639, November 19, 1934. We would appreciate receipt as soon as practicable of expression of your views.[57]

An official of the Bureau of Marine Products, Japanese Department of Agriculture and Forestry, who is now in the United States, manifested to an officer of the Department and to an officer of the Bureau of Fisheries interest in the possibility of revision of the Fur Seals Treaty.[58] Have there been indications of a revival of interest in Japan in this matter?[59]

Please refrain from consulting Japanese officials in connection with either of these matters.

HULL

894.628/124

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

No. 748 WASHINGTON, April 22, 1935.

SIR: Reference is made to your despatch No. 1190, dated March 4, 1935,[60] in regard to the advisability of the Japanese Government being approached with a view to there being concluded between the United States and Japan a treaty to regulate salmon fishing in certain waters of Bering Sea and Bristol Bay. The Department made available to the Department of Commerce a copy of your despatch under reference, and there is enclosed a copy of a letter, dated April 16, 1935, from that Department,[60] in which there are set forth circumstances which, it is believed, make it important that a treaty such as that under contemplation be entered into with the least possible delay consistent with diplomatic considerations.

The Department shares your view that the Japanese Government should be approached informally, that it should be informed of the desires of this Government in connection with the preservation of the fishery resources of Alaska, and that the Japanese Government should be asked to indicate whether it would be prepared to cooperate in the matter. The Department associates itself with the Embassy in the view that the results of projected negotiations between the Japanese and Soviet Government in regard to fishing by Japanese nationals

---

[57] The Ambassador's reply, telegram No. 51, March 9, 1 p.m., suggested "delay pending Russo-Japanese fishery discussions." (894.628/121)

[58] Convention between the United States, the United Kingdom, Japan, and Russia for the preservation and protection of fur seals, signed July 7, 1911, *Foreign Relations*, 1911, p. 260.

[59] For previous correspondence, see *Foreign Relations*, 1928, vol. III, pp. 147 ff.

[60] Not printed.

in Soviet waters would have important bearing on the attitude which the Japanese Government may take in the matter of salmon fishing off the coast of Alaska, and it believes, therefore, that no approach should be made to that government until there has been presented to the Japanese and Soviet Governments reasonable opportunity to conclude between them an agreement.

The Department does not, however, concur with the Embassy in the view that an approach to the Japanese Government should await the enactment and enforcement of legislation by Japan to regulate fishing in northern waters by Japanese nationals. It is realized that the enactment of such legislation would place the Japanese Government in relatively favorable position to cooperate, if it should so desire, with the American Government to preserve the fishery resources of Alaska. In view of the fact that the Japanese Government was reported in 1931 by the Embassy to be favorably disposed toward cooperative regulation of salmon fishing off the coast of Alaska and of the fact that operations by Japanese would seriously affect the American salmon fishing industry, it is requested that the Embassy attentively follow the fishery negotiations between the Japanese and Soviet Governments, and that the Embassy report to the Department as soon as the Embassy believes that it would be opportune, in the light of the views set forth in the present instruction and in the enclosure thereto, to approach the Japanese Government.

Very truly yours, For the Secretary of State:
WILLIAM PHILLIPS

894.628/128 : Telegram

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

TOKYO, June 3, 1935—noon.
[Received June 3—2:08 a.m.]

118. Embassy's 1298, May 14,[61] fisheries. As the Russo-Japanese fishery negotiations are likely to be protracted, I suggest that authority might now be given the Embassy to discuss informally with the Foreign Office our wishes in regard to the Bering Sea activities of Japanese fishing interests. Progress will probably be slow, but it may be desirable to have the Government here aware that we regard the matter seriously and wish to have legal restrictions placed upon Japanese fishing vessels operating off the coast of Alaska at as early a date as possible. The Embassy cannot judge the situation accurately without some discussion and feels that a tentative approach might be made now, even if the prospects for speedy settlement do not appear bright in view of the Japanese Government's preoccupation with the Russian fishery question.

GREW

---

[61] Not printed.

894.628/131 : Telegram

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

WASHINGTON, August 3, 1935—2 p.m.

119. Your 118, June 3, noon.

1. You are authorized in your discretion to inquire informally of the Foreign Office whether the Japanese Government would be prepared to enter into discussions with the American Government with a view to the conclusion of a convention whereby Japanese nationals would refrain from engaging in salmon packing in the waters of Bering Sea, eastward of a line from Cape Avinof to Cape Sarichef, Alaska.

2. With reference to last paragraph of your despatch No. 1298 of May 14,[62] Department of Commerce states:

"It is this Department's belief that reference to American wishes should be confined to the subject of preservation of the salmon fisheries. There are no other extensive fishery operations in the waters of the area specified, nor are there likely to be any such operations of particular value to American interests that would be harmed by Japanese activities."

3. You are authorized in your discretion to intimate to the Foreign Office that the American Government would be prepared to consider sympathetically proposals in regard to crab fishing by Japanese interests in the waters of this area, recalling in this connection informal suggestions made at various times during the past few years by Japanese crab canning interests.

4. The Department of Commerce has expressed readiness to instruct Mr. Ward T. Bower, Chief of the Division of Alaska Fisheries of the Bureau of Fisheries, who has had many years of experience regarding the fisheries of Alaska and who has been in Japan and along the Siberian Coast, to proceed to Japan as soon as the conversations in regard to the proposed convention have progressed to the extent that the services of an American fishery expert are needed in Tokyo. Decision as to when the services of Mr. Bower are needed in Tokyo must necessarily rest with you. It is our opinion, however, that, in view of the highly technical character of the subject, you should endeavor in your conversations with the Foreign Office to give the Japanese Government only such information as it would require in formulating its reply to inquiry made by you on the basis of paragraph 1 above. If and when the Japanese Government has manifested some degree of eagerness or at least active interest in the conclusion of the proposed treaty, you should request that Mr. Bower proceed to Tokyo and you should, thereafter, if possible, suspend discussion with the Foreign Office until the arrival of Mr. Bower.

[62] Not printed.

5. Before approaching the Japanese Government please study carefully previous correspondence, especially Department's instruction 639 of November 19, 1934, and 748 of April 22, 1935, and enclosures [63] to both instructions.

6. Please keep the Department currently informed by telegraph of developments as they arise. HULL

894.628/132 : Telegram

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

TOKYO, August 7, 1935—4 p.m.
[Received August 7—6 : 08 a.m.]

163. Department's 119, August 3, 2 p. m. I called on the Vice Minister for Foreign Affairs [64] today and took up with him informally the question of a convention for the control of salmon fishing in Alaskan waters. He asked me if I would put the conversation in writing and I gave him a written statement as follows:

"Would the Japanese Government be prepared to enter into discussions with the American Government with a view to the conclusion of a convention whereby Japanese nationals would undertake not to engage in salmon packing east of a line drawn from Cape Avinof to Cape Sarichef, Alaska?

In this connection, the American Government would be prepared to give sympathetic consideration to proposals in regard to crab fishing by Japanese interests in these waters recalling informal suggestions which have been made by Japanese crab canning interests at different times during the past few years."

Mr. Shigemitsu then asked me if, assuming his reply would be in the affirmative, the American Government would then make formal proposals. I said that I assumed so but that I would communicate with my Government and confirm this later. He then said that he would send for me as soon as he had consulted the Department concerned. I said that we were anxious to go ahead as fast as possible and he promised to expedite the matter to the best of his ability.

NEVILLE

894.628/133 : Telegram

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

WASHINGTON, August 30, 1935—5 p.m.

132. Your despatch 1425, August 9, third paragraph.[65]

---

[63] Enclosures not printed.
[64] Mamoru Shigemitsu.
[65] Not printed; the third paragraph suggested postponement of conversations "pending the arrival of Mr. Bower" with "formal proposals, presumably in the form of a draft convention."

1. You may inform the Foreign Office that this Government is prepared to present to the Japanese Government specific proposals.

2. Should the reply of the Foreign Office to your inquiry be in the affirmative, you may inform the Foreign Office that arrangements have been made for an expert of the Bureau of Fisheries to proceed immediately to Tokyo.

3. For various reasons no draft convention has been prepared. However, Bower will be fully instructed in regard to inducements to be held out in the various contingencies which might be expected to arise in the course of the negotiations.

4. We concur in the thought expressed in the last sentence of paragraph under reference.

HULL

894.628/135 : Telegram

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

TOKYO, November 12, 1935—5 p.m.
[Received November 12—10:10 a.m.]

208. Department's 119, August 3, 2 p.m.; and Embassy's 163, August 7, 4 p.m.

1. I have just been orally informed by the Foreign Office that the Japanese Government would prefer not to enter into negotiations on the question of salmon packing and crab fishing at the present time. The reasons given are as follows:

(*a*) Japanese fishing interests in the Bristol Bay region are limited. The crab fishing is of no great importance although it does provide a livelihood to some of the fishing population. At present there are no Japanese authorized to engage in salmon fishing in the open sea anywhere except around Kamchatka. It appears unlikely that Japanese interests in this industry will develop to an extent that would be detrimental to American interests and that consequently there seems to be no sufficient reason for negotiating a treaty as the matters involved have too little immediate value.

(*b*). The Japanese Government would in any event prefer to reserve its liberty of action in regard to an area as large as that indicated and while the authorities have no present intention to authorize Japanese floating canneries to take salmon in those waters the Government would prefer not to enter into negotiations for a fishery treaty which present conditions do not seem to require.

2. I replied that my Government would be disappointed and inquired whether the compensation offered seemed inadequate; that is, whether they felt that salmon fishing had greater possibilities for development than crab fishing. I asked whether there were any possibility of the authorities reconsidering their decision; that my Government regarded the question of open sea salmon fishing very

seriously; that our land canneries represented a large investment which might well be impaired by open sea salmon fishing; and that finally it needed little imagination to picture the situation which might be created if Japanese fishing vessels came to be regarded as a menace to American shore canneries and that we wished to prevent such a situation arising by taking suitable measures beforehand.

3. I was informed that the matter was simply of not sufficient importance from the Japanese point of view and that the Department of Agriculture and Forestry preferred at this time to retain their liberty of action in regard to the granting of fishing licenses over so large an area.

4. My impression is that the authorities will probably continue to refuse applications for open sea salmon fishing by floating canneries in the eastern part of the Bering Sea for the time being and that they will notify us when the pressure for permits becomes too strong. I am unable to obtain a more definite statement than this at the present time but it is possible that they may adduce a counter proposal if sufficiently pressed. Please instruct.

NEVILLE

894.628/136 : Telegram

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

WASHINGTON, November 29, 1935—5 p. m.

186. Your 208, November 12, 5 p. m. On November 27, the Department discussed the matter orally with the Japanese Ambassador,[66] who stated that he would lay before his Government our view in regard to the desirability of there being concluded a convention.

Please take no further action pending the receipt of the instruction which the Department will expect to send you as soon as a reply will have been made by the Japanese Ambassador.

HULL

894.628/142

Memorandum by Mr. Roy Veatch of the Office of the Economic Adviser

[WASHINGTON,] December 30, 1935.

Conversation: Mr. Seijiro Yoshizawa, Counselor of the Japanese Embassy;
Mr. Sayre;[67]
Mr. Turner;[68]
Mr. Veatch.

---

[66] See section II of memorandum dated November 27, p. 1020.
[67] Francis B. Sayre, Assistant Secretary of State.
[68] William T. Turner of the Division of Far Eastern Affairs.

Mr. Yoshizawa said that he was instructed by his Government to give essentially the same reply to the American suggestion as had been given earlier to the United States Chargé in Tokyo. His Government had referred the suggestion of this Government, presented through the Japanese Embassy in Washington, to the proper authority of the Japanese Government (Mr. Yoshizawa thought this was the Minister of Agriculture) and this authority had intimated that it had no intention of entering negotiations on this matter and could think of no *quid pro quo* which would lead it to be interested in such negotiations. At the same time this authority continues to discourage salmon fishing in the waters mentioned in the suggestion placed before the Japanese Government.

Mr. Sayre said that he had understood all along that the Japanese Government issued no licenses for salmon fishing in this area and that he personally had no expectation that this policy would be changed. The idea in suggesting a formal treaty commitment based upon the existing policy of the Japanese Government was to allay the unnecessary fears of the American salmon fishing industry.

Mr. Yoshizawa said that he fully understood our position and that this had been explained in full in the despatch of the Embassy to Tokyo.

Mr. Sayre accepted the response of the Japanese Government as final and as definitely closing the matter.[69]

OBSERVATIONS BY THE JAPANESE GOVERNMENT REGARDING RESTRICTIONS UPON THE DEVELOPMENT AND EXPLOITATION OF NATURAL RESOURCES BY ALIENS IN THE PHILIPPINE ISLANDS

811B.011/10

Memorandum by the Under Secretary of State (Phillips)

[WASHINGTON,] March 4, 1935.

When the Japanese Ambassador was here this afternoon he handed me the accompanying paper,[70] which he said should not strictly have been called "memorandum", relating to Article 13, Sections 13 and 16 of the Draft Constitution of the Philippines,[71] which contains certain provisions restricting the right of foreign nationals to develop and

[69] The Department in its instruction No. 921, January 11, 1936, to the Ambassador in Japan stated: "Although it appears that the conclusion of an agreement of the kind envisaged is precluded at present by the attitude of the Japanese authorities, the Department would appreciate any further suggestion or comment which your study of the matter may lead you to offer."

[70] *Infra.*

[71] See Article XII, secs. 1 and 5, *Constitution of the Philippines Adopted by the Philippine Constitutional Convention at the City of Manila, Philippine Islands, on the 8th Day of February 1935*, Senate Document No. 43, 74th Cong., 1st sess. (Washington, Government Printing Office, 1935).

exploit natural resources in the Philippines. He said he realized it was a delicate matter for him to take up with us, but his Government felt that such a provision should, if possible, be deleted from the Constitution, but failing in this he asked whether there could not be a clause added to the Constitution granting rights to foreign nationals on the basis of reciprocity; the last paragraph of his so-called "memorandum" discusses this point.

I said that I would give the matter consideration, but could not undertake to express any opinion at the present time.

WILLIAM PHILLIPS

811B.011/10

The Japanese Embassy to the Department of State [72]

MEMORANDUM

Without any intention whatever on the part of the Japanese Government of interfering with the domestic affairs of the Philippines, but since the matter will have an important bearing upon the welfare of Japanese residents in those islands, the following observations from the point of view of Japanese are submitted to the friendly consideration of the United States authorities concerned in relation to Article XIII, Sections 13 and 16, of the Draft Constitution of the Philippines, which contains general provisions restricting the right of foreign nationals to develop and exploit any natural resources in the Philippines.

First of all, it appears unnecessary to incorporate this clause in the Constitution inasmuch as there exist several Philippine laws which limit the rights of aliens with respect to natural resources, such as public lands, timber land, mineral land, fisheries, et cetera.

In inserting the clause in question in the Draft Constitution, thereby making it a permanent and definite system, they omit a reciprocal clause which is incorporated in the existing Public Land Law and Fishery Law to the effect that the nationals of a foreign country, the laws of which grant similar permission to Filipino citizens, are entitled to enjoy privileges on an equal standing with the Filipinos.

In view of the fact that a great number of Japanese are engaged in agricultural and fishing pursuits in the Philippines, it would give an impression that that part of the Constitution was drafted with the object of excluding Japanese from these enterprises. This would unnecessarily wound the Japanese feelings and cause an undesirable effect on the relations between Japanese and Filipinos.

It is most desirable, therefore, that such a provision be deleted from the Constitution of the Philippines; but, failing in this, would it not

---

[72] Handed to the Under Secretary of State by the Japanese Ambassador on March 4.

be possible to add to the Constitution a clause whereby the granting of rights to foreign nationals on the basis of reciprocity or by treaty would be made an exception to the above general rule, as in the existing laws, in a spirit of international amity and equity and also in consideration of the most intimate economic relations between Japan and the Philippines?

811B.011/10

The Under Secretary of State (Phillips) to the Secretary of War (Dern)

WASHINGTON, March 16, 1935.

MY DEAR MR. SECRETARY: I refer to your confidential letter, dated March 11, 1935, acknowledging the receipt of the Department's confidential letter of March 7, 1935,[73] in which it was stated that the Department was inquiring of the American Embassy at Tokyo whether the laws of Japan prohibit or restrict the development and exploitation by foreign nationals of the natural resources of Japan.

Article V of the Mining Law of Japan provides that:

"No persons other than subjects of the Empire, or juridical persons duly formed in accordance with the laws thereof, may acquire mining rights."

In J. F. DeBecker's *International Private Law of Japan* it is stated (page 44) that:

"Nor have aliens the right to fish or hunt in the territorial seas of Japan."

The Japanese laws cited by DeBecker in this connection are the Fishing Law and the Law Concerning the Hunting of Sea Otters and Seals. The Department does not have available copies of these laws and is, therefore, unable to quote the relevant provisions thereof.

The Department is directing the Embassy at Tokyo to comment on certain other points that are in doubt, and upon the receipt of a reply from the Embassy I shall expect to communicate again with you in regard to this matter.

Sincerely yours, WILLIAM PHILLIPS

811B.011/10

The Department of State to the Japanese Embassy[74]

That portion of the draft constitution for the Government of the Commonwealth of the Philippine Islands which relates to the con-

---

[73] Neither printed.

[74] Handed to the Counselor of the Japanese Embassy by the Assistant Chief of the Division of Far Eastern Affairs on March 21.

servation and utilization of the natural resources of the Philippine Islands would appear to be Article XII, of which Section 1 reads as follows:

"All agricultural, timber, and mineral lands of the public domain, waters, minerals, coal, petroleum, and other mineral oils, all forces of potential energy, and other natural resources of the Philippines belong to the State, and their disposition, exploitation, development, or utilization shall be limited to citizens of the Philippines, or to corporations or associations at least sixty per centum of the capital of which is owned by such citizens, subject to any existing right, grant, lease, or concession at the time of the inauguration of the Government established under this Constitution. Natural resources, with the exception of public agricultural land, shall not be alienated, and no license, concession, or lease for the exploitation, development, or utilization of any of the natural resources shall be granted for a period exceeding twenty-five years, renewable for another twenty-five years, except as to water rights for irrigation, war supply, fisheries, or industrial uses other than the development of water power, in which cases beneficial use may be the measure and the limit of the grant."

It may be observed that the restrictions and prohibitions which would be imposed by the section above-quoted would be applicable to all persons not citizens of the Philippine Islands. It does not appear therefrom that distinctions would be made between categories of persons not citizens of the Philippine Islands; and if an impression should arise that this portion of the Constitution was drafted with the object of excluding Japanese from developing and exploiting the natural resources of the Philippine Islands, such impression, while unfortunate, could not arise from any just or reasonable cause, for the reason that the disabilities applicable to Japanese nationals would equally be applicable to citizens of the United States and to other non-Philippine nationals.

It will be observed that Section 3 of the Act entitled "To provide for the complete independence of the Philippine Islands, to provide for the adoption of a constitution and a form of government for the Philippine Islands, and for other purposes" [75] (copy of which is attached), provides that the draft constitution shall be submitted to the President of the United States, "who shall determine whether or not it conforms with the provisions of this Act", and that, "If the President finds that the proposed constitution conforms substantially with the provisions of this Act he shall so certify . . ." [76] It would seem clear that it was the purpose of Congress to impose upon the President the duty to make certain that the constitution make adequate provision in regard to certain points that are set forth in Section 2 of the Act. On the other hand, it is not understood that the

[75] Approved March 24, 1934; 48 Stat. 456.
[76] Omission indicated in the original.

Act grants the President the authority to take action looking toward modification of the draft constitution in respect of matters that are not stipulated in the Act above-mentioned.

The Department will, however, endeavor to have the question under discussion brought to the attention of the Philippine authorities.

[WASHINGTON,] March 19, 1935.

811B.011/10

The Secretary of State to the Secretary of War (Dern)

WASHINGTON, March 26, 1935.

MY DEAR MR. SECRETARY: I refer to my letter of March 7, 1935,[77] with which there was enclosed a copy of a memorandum of a conversation on March 4, 1935, between the Japanese Ambassador and the Under Secretary of State, together with a copy of a memorandum left by the Japanese Ambassador at the Department wherein the Japanese Government offers observations in regard to those provisions contained in the Draft of Constitution for the Government of the Commonwealth of the Philippine Islands which relate to the development and exploitation of natural resources in the Philippine Islands.

I enclose a copy of an informal memorandum, dated March 19, 1935,[78] which was handed on March 21 by an officer of the Department to the Counselor of the Japanese Embassy in reply to the memorandum above-mentioned of the Japanese Ambassador.

It is suggested that you may care to inform the Governor General of the Philippine Islands in regard to the question raised by the Japanese Ambassador.

I assume that the Philippine authorities have given thought to the bearing of the provisions of Article 12, Section 1 of the Draft Constitution (requiring that at least 60 per cent of the capital of corporations or associations engaged in the "disposition, exploitation, development, or utilization" of the natural resources of the Philippine Islands shall be owned by citizens of the Philippine Islands) upon the future development of the Philippine Islands, and to the question whether those provisions would effectively serve the interests of the Philippine people. I am therefore not inclined at the present time to suggest that this matter be brought to the attention of the Philippine authorities. In the event that at some future time these constitutional provisions should appear, in the judgment of the Philippine authorities, to restrict unduly the entry of foreign, especially American, capital, the matter may present itself for discussion.

Sincerely yours, CORDELL HULL

---

[77] Not printed.
[78] *Supra.*

811B.011/16 : Telegram

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

TOKYO, March 29, 1935—10 a.m.
[Received March 29—12:05 a.m.]

68. Department's 42, March 15, 8 p.m.[79] Aside from the mining law there is no specific legislation restricting the exploitation of natural resources by foreigners. The benefits of subsidies are restricted by law in each case to Japanese subjects. There are a number of administrative policies which in practice would probably prevent foreign exploitation of resources. In the case of water power rights an application by a foreigner to dam streams and build power plants would probably be rejected, although there is no law which forbids foreigners to go into the business. A number of foreigners have been interested in these enterprises as investors, but the authorities would very likely insist that the concession be issued in the name of a Japanese. The same applies to commercial fishing, which requires a license. It is extremely improbable that an application by foreign interests would be considered favorably, despite the absence of legislation on the subject.

Agriculture is not restricted to Japanese. There are a number of foreigners, mostly mission or missionary institutions, who conduct farming enterprises without interference. There is no legislation, regulation or restrictive policy in vogue in this matter. It would probably be impossible to import labor to operate an agricultural establishment, although there is no specific legislation on the subject. Immigration is controlled not by law but by administrative ruling of the Home Department, by which the police keep out persons whose presence is considered undesirable. As habeas corpus proceedings are unknown in Japan there is no way to interfere with administrative rulings in this connection.

GREW

811B.011/16

The Secretary of State to the Secretary of War (Dern)

WASHINGTON, April 12, 1935.

MY DEAR MR. SECRETARY: I refer to this Department's confidential letter dated March 16, 1935, and especially to the last paragraph thereof, in which it was stated that the American Embassy at Tokyo had been directed to make available further information bearing on the question whether the laws of Japan prohibit or restrict the development and exploitation by foreign nationals of the natural resources

[79] Not printed.

of Japan. The statements set forth hereunder incorporate information contained in a telegraphic report from the Embassy at Tokyo.

The text of Article 5 of the Mining Law of Japan, prohibiting foreigners from engaging in mining in Japan, was quoted in my letter above mentioned.

The Fishing Law of Japan provides that those engaging in commercial fishing within the territorial waters of Japan shall obtain a license. The law does not specifically state that such licenses shall be granted only to Japanese nationals, but it provides (Article 7) that a right accruing from a commercial fishing license shall be regarded as a property right and that the laws and regulations concerning the ownership of land shall be applicable to such right. Article 1 of a law enacted in 1926, which made possible the ownership by aliens of land in Japan, reads as follows:

"The possession of rights in land within the Empire by aliens or alien juridical persons belonging to nations which prohibit, or impose conditions or limitations upon, the possession of rights in land by Japanese subjects or juridical persons may, by imperial decree, be similarly prohibited, or identical or similar conditions or limitations may be imposed thereon."

This Department understands, however, that no restriction or prohibition in respect of the ownership of land has been imposed upon citizens of the United States or of the Philippine Islands and that consequently there exists no specific restriction or prohibition in respect of the issuance by Japan of commercial fishing licenses to such citizens.

There is no provision of law which restricts agriculture to Japanese nationals, and it is understood that there are a number of foreigners, mostly missionaries or missionary institutions, who conduct farming enterprises without interference.

It may be pertinent to cite, in connection with the question whether foreigners are permitted to exploit or develop the natural resources of Japan, a law promulgated on July 27, 1899, and effective on and after August 4, 1899. That law provides that laborers may not "reside or carry on their business outside the foreign settlements or mixed residential districts unless under the special administration of the administrative authorities." An ordinance issued by the Minister for Home Affairs on the basis of the law cited in the present paragraph provided that laborers engaged in "agricultural, fishing, mining, civil engineering, architectural, manufacturing, transporting, carting, stevedoring and other miscellaneous work" would be liable to the prohibition above quoted.

There are a number of administrative policies which in practice would probably prevent exploitation by foreign nationals of the natural resources of Japan. It is probable that an application by a

foreigner to develop water power projects would be rejected, although there is no law which forbids foreigners to engage in the business of developing electricity from water power. A number of foreigners have been interested as investors in enterprises of this character, but the authorities would probably insist that the concession be issued in the name of a Japanese. Similarly it is extremely improbable that an application by foreign interests to engage in commercial fishing would be considered favorably, despite the absence of specific legislation on the subject.

It may be of further interest to note that Ordinance No. 110, issued on December 10, 1929, by the Government General of Chosen provides that:

"Aliens or alien juridical persons belonging to countries which deny to Japanese subjects or Japanese juridical persons the right to fish shall be prohibited from fishing or possessing the right to fish.

"Aliens or alien juridical persons belonging to countries which impose special prohibitions or restrictions in regard to fishing upon Japanese subjects or Japanese juridical persons may be made subject by the Governor General of Chosen to similar prohibitions or restrictions."

Sincerely yours, For the Secretary of State:
WILLIAM PHILLIPS
Under Secretary

REFUSAL OF THE UNITED STATES TO ACCEDE TO DEMAND OF JAPANESE CONSUL AT CHEFOO FOR AN OFFICIAL APOLOGY FOLLOWING CONFLICT BETWEEN AMERICAN AND JAPANESE NATIONALS

393.1123 Winterle/1 : Telegram

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

NANKING, September 21, 1935—noon.
[Received 8:22 p.m.]

7. (1) Following from Chefoo:

"September 19, 3 p.m. I have the honor to report that on the evening of September 3rd a drunken Japanese consular police officer named Honda is reported to have attacked the Russian wife of an American citizen named Winterle. Subsequent developments threaten to assume serious proportions. Seems to have been made without any provocation. After rescuing wife from second attack same evening Winterle engaged in tussle with the Japanese who now claims that for no reason he was attacked by Winterle and other Americans and beaten, producing several Japanese witnesses. American witnesses refute this statement and after reviewing all evidence presented (except from the Japanese side which has come only through their consulate) I am inclined to believe that the Japanese

are attempting either to make a serious incident of a trivial affair or to save the face of a Japanese official at any cost. Japanese Consul [80] yesterday made the following written demands:

'1. Apology by you to me.
2. Apology to the suffered Japanese by Mr. and Mrs. Winterle and by Mr. Dunlap, American proprietor of the Biltmore bar.
3. Guarantee by you of preventing any case of this kind in the future.'

Full report by mail in despatches numbers 81 and 82 of September 17th and 18th. Embassy's instructions as to what reply should be made to Japanese Consul urgently requested.

In view of Yamada's [81] veiled threats at a call by the Consul General today of trouble from Japanese Navy in Port Arthur, whom enraged local Japanese community might inform unless national honor is satisfied by an apology from the American Consulate, it is suggested that the Embassy consider requesting a postponement of the departure of some of the American men of war who are now planning to leave September 21st, until the case is settled. Should I suggest that the Americans charged with the disturbance proceed to Shanghai?

Not repeated to the Department or Nanking."

(2) I have replied as follows:

"September 21, 9 a.m. Your September 19, 3 p.m. to Peiping.

1. Extraterritorial jurisdiction vested in you requires that you entertain complaint of Japanese against Winterle and that acting judicially you should conduct preliminary hearing for the purpose of determining whether or not there is reason to believe that an attack was made upon the Japanese Honda and that the man Winterle made such an attack. It is not necessary in a preliminary hearing to determine question of provocation or character of evidence. In such a preliminary hearing American defendant is not on trial and may reserve his answer. If you find that there is reason to believe that an attack was made upon the Japanese complainant and that the American Winterle did make the attack it is obligatory that you hand him over for trial by the United States Court for China. Certified copies of testimony taken with commitment papers should then be forwarded to the United States Court for China.

2. Facts presented in your telegram under acknowledgment would indicate that proceedings described above should be instituted without delay, Japanese complainant being notified of date and time set for hearing. Consult consular court regulations regarding procedure.

3. You may inform your Japanese colleague in regard to his written demands that you have referred this phase of the matter to me.

4. Embassy considers that it would exaggerate situation to suggest naval vessels delay departure and is taking no action in that respect.

5. Embassy does not understand why matter is only now becoming important since incident occurred on September 3rd.

6. Your telegram and this reply are being repeated to the Department."

---

[80] T. Tanaka, Japanese Acting Consul at Chefoo.
[81] English interpreter of the Japanese Consulate at Chefoo.

(3) Before sending Chefoo the instruction quoted above I sent Peck [82] to see Suma [83] of the Japanese Embassy informally to explain to Suma that the American Consul at Chefoo had informed us of the receipt of the points quoted above and that obviously the American Consul could not comply with the first and third of these requests. Mr. Suma stated that he had also received similar information from his Consul and although he concurred in thinking it highly desirable to settle the matter without further magnifying it and with the minimum of friction and publicity he showed no disposition to direct the Japanese Consul to withdraw his request. Suma expressed the opinion that a judicial inquiry would be advisable.

The above constitutes developments in this matter known to the Embassy up to the present moment.

JOHNSON

393.1123 Winterle/2 : Telegram

The Consul at Chefoo (Paxton) to the Secretary of State

CHEFOO, September 21, 1935—4 p.m.
[Received September 21—12 : 40 p. m.]

Ambassador's telegram of September 21, 9 a.m.[84] has just been received. With regard to paragraph 1 no complaint has been made to me by Honda himself and no evidence submitted by the Japanese, except the statement of the acting Japanese Consul, in his letter referred to that he [was] satisfied from his own investigations that Winterle and other Americans were guilty of the disturbance and that he considered further investigation unnecessary. With reference to paragraph 2 unless otherwise instructed by Monday afternoon September 23, 7 p.m., I propose suggesting in writing to the Japanese Consul that Honda bring a formal complaint before this Consular Court setting September 25th for the hearing. I am complying with paragraph 3. As to paragraph 4 it is respectfully suggested that the U. S. S. *Sacramento* could return from Chin-wangtao in the guise of a routine movement and might prevent local disturbances by Japanese residents simply by the presence of its shore patrol. With regard to paragraph 5 informal conversations were proceeding satisfactorily until without warning the letter mentioned was received from the Japanese Consulate, presumably due to pressure from local Japanese.

Repeated to the Department, Nanking and Peiping.

PAXTON

---

[82] Willys R. Peck, Counselor of Embassy in China.
[83] Yakichiro Suma, First Secretary of the Japanese Embassy in China.
[84] See *supra*, paragraph numbered (2).

393.1123 Winterle/3 : Telegram

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

WASHINGTON, September 23, 1935—11 a.m.

3. Your 7, September 21, noon, and Chefoo's September 21, 4 p.m., to you. Department wondering why Chefoo has not lodged and you have not recommended lodging charge against Japanese policeman. Please inform Department immediately.

HULL

393.1123 Winterle/4 : Telegram

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

NANKING, September 24, 1935—1 p.m.
[Received September 24—12:48 p.m.]

9. Department's 3, September 23, 11 a.m.

1. I anticipated that Chefoo's despatches of September 17 and 18 would arrive in a day or two and wished to be in possession of all the facts before recommending the lodging of a complaint against the Japanese policeman. It seemed to me however that a routine inquiry would tend to quiet the excitement.

2. Paxton's despatches have now arrived and they show: (1) that Winterle and his wife on the morning of September 4th reported to Paxton an attack made by Japanese on the woman the previous evening and that the matter was immediately reported by Paxton to the Japanese Consulate which replied that the case was under its investigation; (2) that friendly discussions of the case took place between officers of the Japanese and American Consulates on September 9, 11, 14 and 16, in a sincere effort to ascertain the actual facts; (3) that while the Japanese contend that the friction originally arose from an alleged attack by Mrs. Winterle in a cabaret on Honda while the latter was drunk the unexpected letter of September 18 from the Japanese Consul to Paxton laid most emphasis on a reported later attack on Honda and stated that the Consul's investigations proved that "many American citizens and Navy men supported Mr. and Mrs. Winterle and surrounded Mr. Honda and other two Japanese to conduct violence to them in such a way as to beat, smash and kick by beer bottles, their hands and feet"; (4) that in the conversations mentioned above the testimony against Honda was brought to the attention of the Japanese Consulate but the latter discounted the evidence while admitting that a quarrel between Honda and Mrs. Winterle caused the enlarged conflict later; (5) that Paxton told the Japanese Consulate on September 14 that if charges were filed against Honda it would have to be done "in the Japanese Consular Court and so far as was known no American

citizen contemplated bringing any charges against him, Winterle, the American chiefly concerned, having assured the American Consul that he no longer held any grudge against Honda and would institute no further action against him either on his wife's account or on his own"; and (6) that the whole incident involves stories of barroom brawls followed by actual or planned revenge by Japanese and American gangs.

3. These despatches incline me to believe that the truth at the bottom of these quarrels will never develop and that the best hope of quashing the incident lies in the hearing which presumably will be held in the Consular Court at Chefoo on the morning of September 25, (see Paxton's telegram of September 21, 4 p.m.).

4. Repeated to Peiping and Chefoo with Department's telegram No. 3, September 23, 11 a.m.

JOHNSON

393.1123 Winterle/6 : Telegram

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

NANKING, September 26, 1935—3 p.m.
[Received September 26—1:35 a.m.]

17. My 10, September 24, 3 p. m.,[85] paragraph 1. Following from Chefoo:

"September 25, 6 p. m.

1. I have just received a reply from the Japanese Consulate acknowledging my letter of September 23rd, requesting a formal complaint from Honda, and informing me 'that the present difficulties are not a merely personal question, namely a question of such a serious nature that a mass of the navy men and citizen[s] of your country repeated blows against the Japanese officials and people and injured them. Even more we have in hand convincing evidence about the case and intend to settle the case through diplomatic negotiations.' I am withholding reply pending instructions.

2. A representative of the Japanese Consulate called today and orally repeated the request for compliance with the three demands already reported. After repeating orally, as I had already written, that the matter had been referred to the Ambassador, I requested that the communication be put in writing. The gist thereof will be telegraphed when it is received.

3. The representative showed me chits signed by C. K. Skoof or Spoof, *Black Hawk*, reported to have been an American naval officer involved in the brawl. No such officer is listed in the Navy roster and no proof of his connection with the affidavit submitted. He might be a petty officer.

---

[85] Not printed.

4. Dunlap reported that Young, a British subject, admitted having been actively involved in the attack and struck a Japanese. Dunlap, however, only saw his skinned knuckles and blood on his shirt.

5. Winterle has agreed to waive hearing and is willing to proceed to Shanghai when a sailing can be arranged. Not repeated to the Department or Peiping."

(2) Following reply sent to Chefoo, September 26, noon.

"Your September 25, 6 p.m.

1. You may inform your Japanese colleague that the Embassy does not authorize you to give the apology or guarantee which constituted demands 1 and 3 mentioned in your September 19, 3 p.m.[86]

2. You should offer to receive and transmit to the appropriate American Naval authorities any charges and evidence your Japanese colleague may wish to submit against naval personnel.

3. You should cooperate in friendly spirit with your Japanese colleague in effort to reach accurate understanding of the facts of this occurrence.

4. Your telegram and this reply repeated to Peiping and Department. ["]

(3) At Suma's desire Peck talked with him again September 25th and during the conversation Suma said that under Japanese regulations the settlement of this incident lay within the competence of the Japanese Consul at Chefoo and the Japanese Embassy proposed to instruct him that he must assume the responsibility for settling it amicably in consultation with the American Consul. The [*Suma?*] deprecated any attempt by the two Embassies themselves to settle the case both because of irreconcilable differences in the reports submitted to them and because of the undue importance which would thus be given to a trivial incident.

JOHNSON

393.1123 Winterle/7 : Telegram

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

WASHINGTON, September 27, 1935—2 p.m.

7. Your 17, September 26, 3 p. m. Department suggests for consideration that you repeat to Chefoo the last paragraph of your telegram under reference.

HULL

---

[86] See Embassy's telegram No. 7, September 21, noon, paragraph numbered (1), p. 1087.

393.1123 Winterle/9 : Telegram

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

[Extracts]

NANKING, September 29, 1935—5 p.m.
[Received September 29—2: 15 p.m.]

20. My 18 September 27, 3 p.m.[87] and previous.

1. Following just received from Chefoo:

"September 28, 5 p.m. My September 26, 4 p.m.

(1) Tanaka has yesterday and today refused personal interviews pleading prior engagements. His representative, Yamada, this morning for the first time submitted statements with translations from many Japanese, Chinese, Korean and ex-Russian witnesses to the effect that Skoof and several other American Navy officers and men participated in the attack on Honda and other Japanese. These I have promised to send, if submitted with certified translations, to the Embassy and appropriate naval authorities. Yamada has orally again repeated his request for a personal apology in writing or orally from me to Tanaka and the guarantee previously reported, with the addition that if no guarantee is given Tanaka will request a Japanese man-of-war next summer for the protection of their nationals. I made a similar reply to that reported in paragraph 2 in my telegram of September 25, 6 p.m.,[88] adding that there was ample time between now and next Spring to reach a diplomatic solution of the present difficulties.

. . . . . .

(5) I would appreciate an early opportunity for a personal conference with the Ambassador in Chefoo, Nanking or Peiping."

I have replied as follows:

"September 29, 4 p.m. Your September 28, 5 p.m., paragraph number 1. You may tell the Japanese Consul that you have referred the matter of an apology to me and that I have authorized you to say that there can be no question of an apology or guarantee by you, that you are prepared to transmit to the United States naval authorities any complaints he may have against enlisted and commissioned personnel of the Navy and that your Consular Court is open to hear any complaints that he or his nationals have to make against American citizens.

. . . . . .

(3) Your telegram under acknowledgment and this instruction repeated to Department and Peiping."

2. The Department may wish to authorize Paxton to come to Peiping for consultation. I am leaving for Shanghai tonight and expect to be in Peiping on October 5 or 6 returning to Nanking about October 17.

---

[87] Not printed.
[88] See Embassy's telegram No. 17, September 26, 3 p. m., p. 1091.

3. Situation at Chefoo grows more complicated. The Japanese Consul appears to me to be a very unreasonable person and Suma practically washed his hands of matter in consultation with Peck. I suggest that Ballantine [89] be ordered to Chefoo to investigate whole matter and make recommendations as to what should be done. Paxton seems to be in a position from which he can not extricate himself without some assistance and I am not yet sure enough of the facts to make any requests of the Japanese Embassy. Ballantine and Paxton might come to Peiping at the same time.

4. Department's telegram No. 7, September 27, 2 p.m. Paragraph 3 of my No. 17, September 26, 3 p.m. repeated to Paxton today.

5. Repeated to Peiping.

JOHNSON

393.1123 Winterle/11 : Telegram

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

PEIPING, October 2, 1935—3 p.m.
[Received October 2—8:45 a.m.]

21. Department's 6, September 30, 6 p.m.[90] I instructed Ballantine and Paxton by telegraph October 1, 4 p.m. to proceed immediately to Peiping for consultation. Paxton is leaving Chefoo today. Following telegram received last night from Paxton:

"October 1, 8 p.m. Your October 1, 4 p.m. Japanese Consul now requests only recognition of United States Navy participation and expression of regrets by American Consul. I am satisfied that Navy was involved. Unless otherwise instructed am proceeding to Peiping October 2, 6 a.m.["]

LOCKHART

393.1123 Winterle/12 : Telegram

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

PEIPING, October 2, 1935—5 p.m.
[Received October 2—10:40 a.m.]

23. Embassy's 21, October 2, 3 p.m. Following from American Consul at Chefoo:

"October 2, 8 a.m. From October 1, 8 p.m. no bus due to the rain. Am going by automobile at noon if roads dry, otherwise tomorrow. Following has just arrived from the Japanese Consulate:

---

[89] Joseph W. Ballantine, Consul General at Mukden.

[90] Not printed; it authorized the proposal made in paragraph 3 of telegram No. 20, September 29, 5 p.m., *supra*.

['] I have the honor to refer to the case of difficulties between Japanese and Americans which occurred early last month and to inform you the case will be easily settled if your Embassy will authorize you to recognize the participation of American Navy enlisted personnel and to express either orally or in writing your regret for this occurrence.[']"

LOCKHART

393.1123 Winterle/14 : Telegram

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

PEIPING, October 7, 1935—3 p.m.
[Received October 7—10:35 a.m.]

84. Embassy's October 3, 11 a.m.[91] and previous. In view of the statement made by Paxton in his October 1, 8 p. m., repeated in my October 2, 3 p. m., that he is satisfied that Navy was involved, I am instructing Paxton to return to Chefoo. He will propose to the Japanese Consul in view of the conflicting reports telegraphed regarding the origin of the affray and the difficulty of arriving at the facts that unless he after consideration has further suggestions for means of arriving at the facts or unless he desires to await outcome Winterle case, either, (1) the case be dropped with mutual oral assurances to make efforts to prevent disturbances involving their respective nationals or, (2), mutual regrets be orally expressed for any participation by police officers and naval personnel that may have occurred with mutual assurances investigation under (1).

I am instructing Ballantine to remain here pending outcome of this proposal but consider it advisable that he visit Chefoo later irrespective of whether proposal is accepted.

JOHNSON

393.1123 Winterle/15 : Telegram

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

PEIPING, October 15, 1935—noon.
[Received October 15—6 a.m.]

61. Embassy's 52, October 12, 9 [*1*] p. m.[91] Following telegram has been received from Chefoo.

"October 14, 5 p.m. Following from Ballantine: At interview with the Japanese Consul he rejected our proposed basis of settlement and reaffirmed his previous proposal. Full report by mail. I see no advantage in continuing discussions and propose returning to Mukden October 15, 5 p.m. unless otherwise instructed."

The proposed basis of settlement mentioned by Ballantine was set forth in the Embassy's 34, October 7, 3 p.m.

---

[91] Not printed.

In view of Ballantine's report I propose to take no further action in the matter unless fresh overtures are made by the Japanese authorities. If mail report from Ballantine contains new information which alters the situation the Department will be informed.

I am authorizing Ballantine to return to Mukden. JOHNSON

393.1123 Winterle/16 : Telegram

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

PEIPING, October 24, 1935—4 p.m.
[Received October 24—9 : 30 a.m.]

88. Embassy's 61, October 15, noon. The Japanese Consul at Chefoo in a letter dated October 16 requested Paxton to express his personal regret over the incident. Paxton forwarded a copy of the letter to the Embassy, stating that it was by far the most courteously worded letter he had received from the Japanese Consul, although it contained certain unpleasantly worded passages. Paxton also forwarded for the Embassy's approval the draft of a reply which he proposed to send to the Japanese Consul and which he stated although personal in tone and "really giving away nothing" might satisfy the apparent desire of his Japanese colleague for a feasible red tape escape from the unfortunate situation in which he now finds himself.

As a copy of Paxton's despatch had been sent to Nanking I telegraphed Nanking as follows:

"October 21, 5 p.m. The Embassy is not entirely satisfied with Paxton's draft reply to the Japanese Consul and believes that the following might be offered as substitute:

'I have received your letter of October 16, 1935, concerning the Honda-Winterle affair which occurred in Chefoo early last month. In this connection I wish to inform you that, since the question of the responsibility of its origin has not been cleared up, I am, of course, unable to express my official regrets over the matter. I desire to add, however, that regardless of the question of responsibility, it is always a matter of personal regret to me when incidents occur which tend to mar the friendly relations between our nationals.

As I have already informed you I shall be pleased to request the American naval authorities to take measures to prevent the participation of naval personnel in any such unfortunate occurrences, and I hope that, on your part, you will endeavor to prevent actions by those under your control which might cause incidents'.

It is requested that you discuss the matter with the Ambassador as his approval should be obtained. It is possible that he may desire to obtain the Department's views before Paxton is instructed.

Paxton has been informed of this reference".

The following reply has now been received from Peck at Nanking:

"October 23, 3 p.m. Your October 21, 5 p.m. The Ambassador approves your substitute draft and directs that you suitably inform

Chefoo and at the same time report the Embassy's action to the Department."

I am sending mail instructions to Paxton with the text of the draft reply approved by the Ambassador.

LOCKHART

393.1123 Winterle/19 : Telegram

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

WASHINGTON, December 17, 1935—11 a.m.

82. Your despatches Nos. 64 and 71 of November 6 and 9.[93] Department approves of your proposal to present to the Japanese Ambassador copies of the letters from the Japanese Consul at Chefoo to Paxton and to complain of their character and tone, quite apart from and without reference to the merit of the cases concerned but suggests that this be done informally.[94]

HULL

PROTECTION OF CONTRACT RIGHTS OF THE ORIENTAL CONSOLIDATED MINING COMPANY, AN AMERICAN FIRM OPERATING IN KOREA[95]

895.63 Or 4/46

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

No. 755 WASHINGTON, May 6, 1935.

SIR: The receipt is acknowledged of your despatch No. 1229 of April 5, 1935, with which there was enclosed a copy of a letter, dated March 25, 1935, from the General Manager in Chosen of the Oriental Consolidated Mining Company,[96] setting forth the amount of the loss sustained by the Company because of the allegedly unwarrantable action of the Japanese Government in invalidating certain provisions of the Company's contract with the former Government of Korea, and requesting that the Embassy forward to the Japanese

---

[93] Neither printed. In these despatches, the Ambassador in China reported further on the correspondence growing out of the incident of September 3 and two other incidents involving citizens of the Philippine Islands. Copies of letters from the Japanese Consul were enclosed to illustrate the "discourteous and impertinent character of the correspondence." The Department was requested to authorize the making of representations to the Japanese Ambassador in China. (393.11B21 Malabanan, Leonardo/3; 393.1123 Winterle/17)

[94] This matter was discussed in February 1936 at Nanking by representatives of the American and Japanese Embassies. The Japanese representative suggested that the fault was due to poor translation into English and promised that he would "see that the proper steps were taken" to avoid in the future misinterpretation of language in written correspondence at Chefoo (393.1123 Winterle/20).

[95] Continued from *Foreign Relations*, 1934, vol. III, pp. 820–826.

[96] Neither printed.

Government the claim above-mentioned and the application of the Company for permission to export the gold produced on the mining concessions granted to the Company by the former Emperor of Korea. You state that the Embassy's activity in regard to the case was suspended last year, and you refer the case to the Department for consideration.

It is ordinarily the practice of this Government, before espousing a claim made by an American citizen against a foreign Government, to require that the claimant exhaust all means of redress, either in the courts of the state complained of or by other means which may be open to the claimant established by such state for the examination of claims against itself and for the granting of redress, and to satisfy itself that the claimant has been denied justice.

Assuming that the refusal of the Japanese Government to permit the Company to export its gold and thereby to profit by the prevalence in other countries of a higher price for gold than that fixed by the Japanese Government constitutes a valid basis for a private claim against that Government, the records of the Department do not indicate that the Company has sought legal recourse through local channels and has been denied justice. It appears, moreover, from the Embassy's telegram No. 38 of February 10, 1933,[98] that the attorney in Japan for the Company was of the opinion that if the Company's case could be tried before a court a favorable decision could be obtained, and that he desired to apply to the Governor General of Chosen for a permit to export gold, presumably with a view to meeting with a denial of such permit and thus to creating a basis for the institution of legal proceedings. It appears from the Embassy's despatch No. 380 of May 10, 1933,[98] that the Company decided for reasons which are not entirely clear to sell the gold produced in its mines to the Bank of Japan at a price fixed in yen by the Japanese Government.

It is desired that you transmit to the Department at your early convenience a full report in regard to such facilities, judicial or otherwise, as may be available for the entertainment by the Japanese Government of private claims against itself, and whether such facilities, if existent, have been resorted to by the Company. If the Company has had recourse to Japanese courts, there should be furnished to the Department a statement of the case presented to such courts by the Company, a statement of the arguments which may have been presented with a view to the refutation of the Company's contentions,

[98] *Foreign Relations*, 1934, vol. III, p. 823.

and a copy of any judgment or decision that may have been rendered.[99]

As it would appear that the Embassy has on previous occasions transmitted to the Japanese Government an application from the Company for permission to export gold, the Embassy is authorized in its discretion to transmit to the Japanese Government another application of this character by the Company. The Embassy should exercise care, however, to transmit such application in the same manner that it transmitted previous applications of the Company.

Very truly yours, For the Secretary of State:
WILLIAM PHILLIPS

895.63 Or 4/48

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

No. 1340 TOKYO, June 10, 1935.
[Received June 29.]

SIR: I have the honor to refer to this Embassy's despatch No. 992, dated October 2, 1934,[1] in regard to the demand of the taxation officials of the Chosen Government General to examine the books of the Oriental Consolidated Mining Company, for the purpose of assessing income tax upon the employees of the Company, and to the Department's instruction No. 645, dated December 3, 1934,[2] authorizing the American Consul at Seoul to address a letter to the Chosen Government General on the subject.

According to a letter from the American Consul at Seoul dated May 17, 1935, (a copy of which was sent to the Department[3]) the Chosen Government General refuses to relinquish its claim to the right to examine the books for income taxation purposes, and the Consul suggests that, in order to avoid unpleasantness, the Company might keep a separate ledger of disbursements for salaries and exhibit this book voluntarily to the taxation authorities. If the Department perceives no objection to this procedure, the Embassy will instruct the Consul to suggest the plan to the Company.[4]

Respectfully yours, JOSEPH C. GREW

---

[99] In his despatch No. 1801, May 1, 1936, the Ambassador in Japan reported that the Company took the position that it "for all practical purposes, has exhausted legal remedies in the premises", while Mr. Grew felt "that the Japanese Government will refuse to admit damages at this time" should the Department make representations on the subject (893.63 Or 4/56).

[1] *Foreign Relations*, 1934, vol. III, p. 824.

[2] *Ibid.*, p. 826.

[3] Not printed.

[4] Instruction No. 828, August 26, to the Ambassador in Japan stated: "The Department perceives no objection to the proposed suggestion, and you are therefore authorized to instruct the Consul at Seoul to make this suggestion to the Oriental Consolidated Mining Company."

ATTITUDE OF THE UNITED STATES REGARDING CORPORATION IN "MANCHOUKUO" ORGANIZED UNDER AMERICAN LAW BUT WITHOUT AMERICAN FINANCIAL INTEREST

811.5034 (China) Thrift and Investment, Finance and Trust Corp./32 : Telegram

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

WASHINGTON, May 28, 1934—7 p.m.

155. Your 214, May 17, 5 p.m.[5] in regard to the Thrift and Investment, Finance and Trust Corporation.

1. Department concurs in the Legation's opinion that the Department's instructions No. 279, December 11, 1922, to the Legation,[5] and of January 15, 1931, to Shanghai,[5] contain sufficient authorization for the Consul at Harbin to refrain from actively assisting this corporation as long as it is unable to present satisfactory proof of a substantial American interest therein.

2. As American law confers American nationality upon a corporation organized under the laws of any of the States of the United States regardless of actual American interest involved, the Department does not feel that it is in position to authorize the Consul at Harbin to advise the bank to refrain from using the American flag because, if the bank refused, the Department knows of no way in which we could exercise compulsion in the matter. Also, the Department is inclined to feel that, if it has been customary for the bank to fly the American flag and if the bank now refrained from doing so upon advice from the Consul, the Manchukuo authorities might assume that the bank is no longer American and attempt to assume jurisdiction over it, which attempt the Consul would, under existing instructions, be required to oppose. The Department believes, therefore, that it is not desirable to raise at this time the question of the flying of the flag.

3. If the Manchukuo authorities should attempt to assume jurisdiction over the bank's business and property, the Consul should inform those authorities, orally if possible, or by addressing them by title without reference to Manchukuo, that the bank is an American corporation organized under the laws of the State of Nevada (if in fact the bank can prove to the satisfaction of the Consul that its charter from that State is still in force). He should then inform the Department of all the facts which gave rise to such action and await instructions.

4. With regard to the Legation's statement that the Department might recognize the Manchukuo banking laws as applicable to American banks in Manchuria, the Legation's attention is invited to the fact that, as the American Government does not accord recognition to

[5] Not printed.

Manchukuo, it follows therefore that the Department does not recognize the legal applicability of any of Manchukuo's acts to American nationals. However, the Department is not disposed to place any objection in the way of voluntary compliance with Manchukuo banking laws and regulations by American nationals doing business in Manchuria if they feel that such action is necessary for the conduct of their businesses. This is especially true in the case of the bank in question, as it is not entitled to the full protection of the American Government, because of the absence of a substantial American interest.

5. With regard to the "precarious" activities of the bank referred to by the Consul, the Department desires that the Consul make a complete report of what he means by such activities in order that the Department may be in position to give consideration to the question of bringing such activities to the attention of the authorities of the State of Nevada to the end that those authorities may in turn give consideration to the question of cancelling the charter if it is found that such activities are contrary to law.

6. Department notes that your telegram was despatched in the non-confidential gray code. Caution should be exercised in the use of that code for matters of this nature.

HULL

811.5034 (China) Thrift Corp./34 : Telegram

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

PEIPING, October 6, 1935—3 p.m.
[Received October 6—5 : 48 a.m.]

29. Embassy's 28, October 5, 1 p.m.[6] Following urgent telegram has been received from American Consul General at Harbin.[7]

"37, October 6, 11 p.m. Embassy's October 5, 1 p.m.

1. There is much excitement in Harbin over suspension of Thriftcor Bank which remained closed yesterday.

2. I believe prompt action is desirable by the American authorities. I suggest that United States Court for China be requested to appoint liquidator at once.

3. Does Court desire any preliminary action by this Consulate General?"

Judge Helmick[8] informed me on October 4 prior to my departure from Shanghai that he had told Shanghai attorneys for bank that as there was no American interest shown and as registration with Consulates had been denied he saw no reason for Court taking

---

[6] Not printed.
[7] Walter A. Adams.
[8] Milton J. Helmick, Judge of the United States Court for China.

jurisdiction. I agree with Judge Helmick that we should not assume the responsibility for bank's liquidation and would like so to instruct Harbin.

JOHNSON

811.5034 (China) Thrift Corp./34 : Telegram

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

WASHINGTON, October 7, 1935—6 p.m.

15. Your 28, October 5, 1 p.m.[9] and 29, October 6, 3 p.m. The Department is doubtful whether American authorities in China could properly refuse to recognize the jurisdictional status of the bank as an American citizen if that question were submitted for judicial determination. However, the question is primarily one for consideration by the Court and if the Judge of the United States Court for China is prepared to maintain in any possible judicial proceeding the position reported in the final paragraph of your telegram 29, August [*October*] 6, 3 p.m., the Department would not object to your suggested instruction to Harbin.

The Department realizes the desirability of avoiding participation by American authorities in the bank liquidation, if that course may properly be taken, but, if the Court should ultimately be required to assume jurisdiction, it would seem preferable that jurisdiction be taken immediately and that all possible measures be adopted to effect the quickest and most equitable adjustment of the bank's affairs.

The Department is making inquiry of the Governor of Nevada in regard to the validity of the company's charter and will inform you of his reply.

HULL

811.5034 (China) Thrift Corp./40 : Telegram

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

PEIPING, October 10, 1935—11 a.m.
[Received October 10—7 a.m.]

42. Embassy's 37, October 8, noon and Shanghai's 592, October 9, 7 p.m.[10] Following from Harbin:

"October 9, 3 p.m. My October 7, 7 p.m. Thriftcor Bank has received a telegram from H. D. Roger, the bank's attorney and vice president in Shanghai, stating that the United States Court for China has refused American jurisdiction, that Shanghai liquidation must be separate from that in Manchuria and that each liquidation must be under local law.

---

[9] Not printed.
[10] Neither printed.

If this information is officially confirmed I believe that I should issue a simple announcement locally that American authorities have declined to assume jurisdiction in order to prevent impression that local authorities have assumed jurisdiction in derogation of American extraterritorial rights. I suggest approval of issuing such a statement if Roger's message is officially confirmed."

Embassy has repeated Adams' telegram to Shanghai for the Judge of the United States Court for China with the following comments. "Do you authorize Adams to issue an announcement that the American authorities have declined to assume jurisdiction over the Thriftcor Bank? Please telegraph Adams directly through the Consul General at Shanghai notifying the Embassy, or if you prefer I will instruct Adams if you concur in the proposal to issue the announcement in question and will so inform me by telegraph."

JOHNSON

811.5034 (China) Thrift Corp./41 : Telegram

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

PEIPING, October 10, 1935—8 p. m.
[Received October 10—11 : 54 a. m.]

45. Embassy's 42, October 10, 11 a. m. Following telegram has been received from Judge of the United States Court for China.

"I fully concur in proposed statement to be issued by Adams and request that you instruct him to make it. With reference to the Department's message to you let me inform you that in a regular judicial proceeding in another case several months ago this Court made a similar ruling and jurisdiction for lack of substantial American interest but the case received no publicity. I think the views of Governor of Nevada will not be helpful."

Embassy is instructing Adams to issue statement in question.

JOHNSON

811.5034 (China) Thrift Corp./43 : Telegram

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

PEIPING, October 12, 1935—6 p. m.
[Received October 12—8 a. m.]

54. Embassy's 49, October 11, 3 p.m.[11] Following telegram has been received from the Consul General at Harbin:

"41, October 12, 1 p. m. My October 11, 11 a. m. My statement was put in eight local newspapers of yesterday and today's issues. I yesterday requested the Thriftcor Bank to cease flying the American flag.

[11] Not printed.

2. The Japanese controlled Russian edited *Harbin Times* editorially states that the fact that the American Government allowed the Thriftcor Bank to claim American nationality and fly the flag of the American Government for a number of years and then disclaimed responsibility for the liquidation of the Thriftcor Bank give rise to question as to the status of other American enterprises in Harbin.

3. The National City Bank states that it has paid out today about 100,000 local dollars as a result of transactions caused by the above editorial statement. I understand that within the last week the National City Bank has paid out about 1,000,000 local dollars.

4. I am today addressing a letter to the National City Bank confirming currency of its registration in this Consulate General. The National City Bank will publish that letter."

JOHNSON

811.5034 (China) Thrift Corp./60 : Telegram

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

NANKING, November 21, 1935—6 p. m.
[Received November 21—3 : 45 p. m.]

101. Peiping's November 18, 4 p.m.[12] Suma[13] has informed me today that the Japanese Consul General in Harbin will take measures to prevent the publication in Japanese papers of the attacks connected with the Thriftcor Bank brought to his attention by the American Ambassador.

By mail to Shanghai, for the Ambassador. Repeated to Peiping.

PECK

---

[12] Not printed.

[13] Yakichiro Suma, First Secretary of the Japanese Embassy in China at Nanking.

SIAM

PROPOSED REVISION OF THE TREATY OF FRIENDSHIP AND COMMERCE BETWEEN THE UNITED STATES AND SIAM, SIGNED DECEMBER 16, 1920 [1]

711.922/59

The Siamese Legation to the Department of State

MEMORANDUM

Referring to the Department of State's memorandum dated June 21, 1934 [2] concerning the revision of Article III of the Treaty between the United States and Siam signed at Washington, D. C., on the 16th December 1920,[3] Prince Damras, the Siamese Minister, has now received instructions from Phya Phahol, State Councillor in charge of the Ministry of Foreign Affairs, to inform the Honorable Cordell Hull, Secretary of State, that (1) the draft of the new Article III as set forth in the aforesaid memorandum is acceptable to His Majesty's Government; (2) the Department of State's proposal that the agreement revising this Article III should be in the form of a supplementary treaty is quite agreeable; and (3) Prince Damras is invested with full powers to conduct negotiations and to sign the proposed supplementary treaty with the Representative of the Government of the United States of America.

The Siamese Minister will be very grateful to be informed when it will be convenient for the Secretary of State to grant him an audience with a view to ascertaining the pleasure of the United States Government as to the procedure and date of signing the said supplementary treaty.

[WASHINGTON,] February 25, 1935.

711.922/60

The Department of State to the Siamese Legation [4]

Referring to the Siamese Legation's memorandum of February 25 concerning the proposed revision of article 3 of the treaty between the United States and Siam signed at Washington, D. C., on December 16, 1920,

---

[1] Continued from *Foreign Relations*, 1934, vol. III, pp. 844–848.

[2] *Foreign Relations*, 1934, vol. III, p. 845.

[3] *Ibid.*, 1921, vol. II, p. 867.

[4] Memorandum of oral statement by the Chief of the Division of Far Eastern Affairs to the Siamese Minister.

In view of the fact that eighteen months have gone by since the possible revision of three articles of this treaty was proposed to the Department, and of the fact that eight months have gone by since the Department signified its willingness to meet the Siamese Government's wishes that one article only of the three, namely article 3, be at this time revised, and of the fact that, so the Department understands, the Siamese Government expects to ask for a comprehensive revision in the year 1936 of a number of its treaties, the American Government feels moved at this time to suggest that the question of revision of article 3 only of the treaty be left in abeyance for the time being.

WASHINGTON, March 13, 1935.

711.922/58 : Telegram

The Secretary of State to the Minister in Siam (Baker)

WASHINGTON, March 16, 1935—3 p.m.

8. Your despatch No. 181 of January 31 [6] and previous in regard to treaty revision. On March 13 the Department, in reply to the Siamese Legation's memorandum of February 25 indicating that the Siamese Government wished to proceed with the signing of a supplemental treaty revising Article 3 of the treaty of 1920 between the United States and Siam, informed the Siamese Minister orally and informally that, in view of the long period which had gone by since the Siamese Government proposed to the Department the revision of certain articles of the present treaty and in view of the fact that the time, namely 1936, when, so we understand, the Siamese Government expects to ask for comprehensive revision of a number of its treaties, had come appreciably nearer, the American Government was moved to suggest that there be left in abeyance for the time being the question of revision of Article 3 only of the treaty. In so stating, we expressed regret that our reply would probably be disappointing to the Siamese Government. We made no mention of the monopolies question.

The Department desires that, unless you perceive objection (in which event please telegraph briefly your reasons), you seek an early opportunity to call at the Foreign Office and orally and guardedly reaffirm our regret.

Mail instruction follows.[6]

HULL

---

[6] Not printed.

711.922/72

Memorandum by the Assistant Secretary of State (Sayre)

[WASHINGTON,] November 22, 1935.

The Siamese Minister [7] called at my request that I might talk over with him the request which he made to me some weeks ago to revise the Siamese-American Treaty by the elimination of Article III relating to monopolies. I explained to the Minister that I had discussed his request with various of my associates in the Department and that, as the matter lay in my mind, the quickest and easiest adjustment would be along the line of an agreement whereby the American Government would assent to the elimination of Article III and the Siamese Government, on its side, would by an exchange of notes agree to refrain during the life of the Treaty from monopolizing the importation, distribution or sale of any commodity to the prejudice of the interests of American nationals, private and corporate, now possessing in Siam immovable property necessary for the importation, distribution or sale of such commodity. I added that it would seem advisable at the same time to clear up any difficulties with regard to the question of land ownership by Americans in Siam and suggested that in the same note the Siamese Government should agree to extend to American nationals the benefits of most-favored-nation treatment with regard to land ownership in Siam. I said to the Minister that I had asked him to come in this afternoon so that I might have the benefit of his own personal reaction to such a proposal before we prepared formal drafts and officially submitted them to him as the representative of his Government.

The Minister at once said that he feared his Government's reaction to the land ownership proposal would be unfavorable. He said that he feared it would appear like a unilateral arrangement in so far as the Siamese Government would be granting to Americans the right to own land in Bangkok without a corresponding right on their part to own land in the United States. I explained to him that I was not suggesting that the Siamese Government should make an outright grant to the United States of the right to own land in Siam but should merely assure the United States that they would enjoy land ownership rights no less favorable than those granted to other nations. Such an arrangement would leave Siam's hands free to modify or curtail the right of foreigners to own land in Siam. I further said that the arrangement suggested seemed to me a fair one in that Siam's granting most-favored-nation treatment with regard to land ownership would, in substance, cost Siam nothing whereas she would be gaining immediately the elimination of Article III which she desires. The

[7] Phya Aphibal Rajamaitri; the new Siamese Minister presented his credentials August 21, 1935.

Siamese Minister said "I can only refer it to my Government" and asked if I would give him a copy of the proposed notes to be exchanged. I said that I should be glad to have them put into final form and would give him drafts as soon as this could be done.

He raised no objection to the proposal of an undertaking by the Siamese Government to protect American rights from monopolization of commodities to the prejudice of American interests.

F[RANCIS] B. S[AYRE]

711.922/74

Memorandum by the Assistant Secretary of State (Sayre)

[WASHINGTON,] December 2, 1935.

The Siamese Minister called at 2:30 and we talked further with regard to the proposal made some time ago by the Siamese Government to revise the Siamese Treaty by omitting Article III therefrom.

In the course of this discussion I handed to the Minister the accompanying draft of a note[8] which I suggested that my Government would be glad to send to the Siamese Government in response to their request. I pointed out to the Minister that as a result of our conversation of some days ago my Government was not making the grant of most-favored-nation treatment with regard to land ownership in Siam a condition for the revision of the Treaty, but that, as expressed in the last paragraph of the draft, the American Government would very much appreciate such a grant. I explained to the Minister that a grant in the form proposed would leave the hands of the Siamese Government entirely free in the course of their work of revising their existing treaties to deal with the problem of foreign land ownership in Siam entirely as they pleased, whereas undertaking to grant to American citizens rights of land ownership, as set forth in the Decree of the Fourth Reign, would not leave Siam's hands entirely free. In other words, I pointed out that the suggestion made in the draft would, to my mind, be more advantageous from the view point of the Siamese Government in that it would leave Siam's hands entirely free in its work of treaty revision. I also said that such a solution of the question of land ownership would, to my mind, be a very happy one in that it would finally dispose of a question which has troubled the two Governments for many years.

The Siamese Minister expressed his appreciation and in taking the draft said that he would at once communicate with his Government and let us have its views at the earliest possible moment.

F[RANCIS] B. S[AYRE]

---

[8] *Infra.*

711.922/74

Draft of Note From the Secretary of State to the Siamese Minister (Rajamaitri) [9]

SIR: I refer to your distinguished predecessor's note under date October 16, 1933,[10] communicating to me an expression of desire on the part of the Siamese Government to have eliminated or modified certain provisions of the existing Treaty of Friendship and Commerce between the United States and Siam, and to my note of November 2, 1933,[11] in which I expressed the readiness of this Government to enter into discussions with the Siamese Government with a view to modification or amendment of those provisions of the Treaty to which the Siamese Government referred; and to your recent expression, on behalf of your Government, of the desire that negotiations be proceeded with looking toward modification of Article III of the Treaty.

The American Government has, in the light of your recent representations, given renewed consideration to this matter and is now prepared to enter, in conformity with the suggestion made by you, into negotiations looking toward revision of Article III of the Treaty. This Government is prepared to assent to an elimination of any provision operating to prohibit or to restrict the creation by the Siamese Government of monopolies. At the same time, the American Government will expect that the Siamese Government take appropriate note of the spirit of accommodation thus manifested by the American Government and that it will, in the same spirit, undertake to refrain from monopolizing the importation, distribution or sale of any commodity to the prejudice of the interests of American nationals, private and corporate, now possessing in Siam property necessary for the importation, distribution or sale of such commodity.

In the same relation, the American Government would be highly gratified if the Siamese Government, reciprocating the friendly disposition of the American Government, could see its way clear to extend to American nationals the benefits of any more favorable position in regard to tenure of land in Siam that may now be held by, or hereafter be granted to, nationals of any third country.

Accept [etc.] For the Secretary of State:

[9] The Assistant Secretary of State handed the original draft to the Siamese Minister, December 2.

[10] *Foreign Relations*, 1933, vol. III, p. 767.

[11] *Ibid.*, p. 770.

711.922/75

Memorandum by the Assistant Secretary of State (Sayre)

[WASHINGTON,] December 9, 1935.

At the invitation of the Siamese Minister, I took dinner with him and Luang Pradit [12] on Saturday evening, December seventh, so that I might discuss with them the question of the revision of the Siamese Treaty. After dinner we discussed the matter in a very informal way and I outlined to them the suggested procedure for the revision of the Treaty, i.e., the drawing up of a new treaty providing that all the Articles of the old Treaty should be continued in force except Article III and that Article III should be supplemented by a new draft. At the time of the signing of the treaty, informal notes would be exchanged such as suggested in the draft which I had already submitted to the Siamese Minister, in which the Siamese Government would give an assurance that it would undertake to refrain from monopolizing the importation, distribution or sale of any commodity to the prejudice of the interests of American nationals now possessing in Siam property necessary for the importation, distribution or sale of such commodity, and also undertaking to give to American nationals most-favored-nation treatment with regard to land ownership in Siam. I also explained that this new treaty would have to be submitted to and ratified by the United States Senate in order to become binding.

In this connection, at the request of the Siamese Minister, I gave him a copy of the accompanying suggested draft note [13] to be given by the Siamese Government to the United States Government in reply to the note of the United States Government.

We also discussed informally the form which the new Article III should take. I left with the Siamese Minister a copy of the recent Canadian trade agreement [14] and suggested the possibility of using the formula concerning monopolies contained in that trade agreement as a substitute for the present Article III. I also suggested the new form of Article III offered in the memorandum of June 21, 1934, given to the Siamese Minister by this Government.[15]

In the course of the discussion, Luang Pradit spoke of the possibility of Siam's giving an exclusive monopoly for the smelting of tin and asked whether, in my opinion, it would violate any of the provisions in the Treaty of 1925 between Siam and Great Britain.[16] I replied that

---

[12] Luang Pradit Manudharm, the Siamese State Councilor for the Interior.

[13] *Infra.*

[14] See vol. II, pp. 18 ff. For text of agreement signed November 15, 1935, see Department of State Executive Agreement Series No. 91, or 49 Stat. 3960.

[15] *Foreign Relations*, 1934, vol. III, p. 845.

[16] Signed July 14, 1925; League of Nations Treaty Series, vol. XLIX, p. 51.

as to this matter no answer could be given without careful study although it might be possible to bring such an exclusive grant within the state monopoly provisions of the British Treaty. I naturally refrained from making any decisive reply as to this matter.

The Siamese Minister and Luang Pradit said that they would at once get into cable communication with Bangkok and would let me know the results as soon as they have definite information.

F[RANCIS] B. S[AYRE]

711.922/75

Draft of Note From the Siamese Minister (Rajamaitri) to the Secretary of State [17]

SIR: I have the honor to acknowledge the receipt of your note of . . . . . .[18] by which you were so good as to inform me that the American Government is now prepared to enter into negotiations looking toward revision of Article III of the existing Treaty of Friendship and Commerce between the United States and Siam.

I am now instructed by my Government to inform you that the Siamese Government, reciprocating the spirit of accommodation manifested by the American Government in indicating willingness to assent to an elimination of any provision operating to prohibit or to restrict the creation by the Siamese Government of monopolies, will undertake to refrain from monopolizing the importation, distribution or sale of any commodity to the prejudice of the interests of American nationals, private and corporate, now possessing in Siam property necessary for the importation, distribution or sale of such commodity.

I am further instructed to inform you that the Siamese Government, as further evidence of the friendly disposition of Siam toward the United States, will undertake to extend to American nationals the benefits of any more favorable position in regard to tenure of land in Siam that may now be held by, or hereafter be granted to, nationals of any third country

---

[17] This draft note was prepared in the Department of State and given to the Siamese Minister during the course of the discussion on December 9 (see memorandum *supra*).

[18] *Ante*, p. 1109.

INDEX

INDEX

Agricultural Adjustment Act, 980, 1004, 1019, 1047
Amau statement. *See under* Sino-Japanese dispute.
Andersen, Meyer, & Co., 65, 102, 757–758, 760–761
Argentina, 958
Arizona, proposed land legislation affecting Japanese nationals, 1068–1072
Arms and munitions. *See under* China.
Australia, 363–365, 946
Aviation. *See under* China *and* Sino-Japanese dispute.

Baldwin Locomotive Works, 757–758, 760–761
Belgium, 720, 721, 726, 729, 731, 736, 737
Bell, Sir Charles, 124
Benedum Trees Co., 773–774, 779–781
Bess, Demaree, 193, 194
Boeing Aircraft Co., 714–717, 725
Boycotts. *See under* China.
Buck, J. Lossing, visit to China, 574, 580–581
Bullitt, William C.: Comment on possible Soviet influence in China, 32; report on interviews with Japanese and Chinese officials, 4–7
Bush, Father Henry J., 684, 685–686, 687

California, proposed land legislation affecting Japanese nationals, 1070–1071
Canada, 946, 984, 987, 1110
Censorship, 102, 223, 254–255, 294
Chaco dispute, 115, 738
Chase National Bank, 543–544, 552, 559, 589, 632, 635
Chiang Kai-shek. *See under* Sino-Japanese dispute.
China (*see also* Sino-Japanese dispute), 508–820
  American educational institutions in China, registration with Chinese authorities, U. S. attitude toward, 815–817
  Arms and munitions (including military aircraft), export to China, 711–738
    Boeing fighter planes for Cantonese forces, difficulties in effecting delivery, 714–717, 725
    Cooperation of various countries in effecting uniform export practices, question of, 711, 719–721, 722–723, 724, 726, 729, 731–732, 735, 736, 737
China—Continued
  Arms and munitions—Continued
    Embargo, question of, position of Swiss Government, 738
    Military aircraft, definition and licensing questions, 711, 714, 715–718, 719, 725–727, 730, 733–735
    New Chinese regulations governing importation of airplane materials, 717–718, 719
    Transshipment of arms from Hong Kong, question of, 711–713, 715, 718–719, 721–722, 723–724, 727–728, 730, 731–732, 736–737
    U. S.-British discussions, 711–713, 718–719, 719–722, 730, 731–734, 735, 737
  Aviation (*see also* Arms and munitions, *supra, and under* Sino-Japanese dispute): Aircraft manufacture in China, question of, 730, 802; Cantonese air force, 714–717, 725; Chinese disinclination to permit establishment of civil aviation or grant of landing rights to foreign interests, 800–802; Hangchow Aviation School, question of continued reliance on American advice and supervision, 18, 21, 24, 27, 30, 177, 224–225, 339
  Boycotts: Anti-American, 579, 584, 588–589, 594, 602–603, 610–611; anti-Japanese, 48, 54, 112, 113, 125, 127–128, 141–142, 318–319
  Cabinet and administrative changes, 296–297, 320, 321, 335–336, 337–339, 477, 484, 487
  Chang Hsueh-liang, 43–44, 200, 201, 214, 684
  Chiang Kai-shek. *See under* Sino-Japanese dispute.
  Chiang Kai-shek, Madame, 21–22, 33–34, 130, 335, 426
  Chiang Monlin, 403–404, 475–476, 483, 491
  Chinese Eastern Railway. *See under* Sino-Japanese dispute: "Manchoukuo".
  Chinese leaders, Chinese objections to editorial comments by *Time* magazine on, 817–820
  Claims against China, 753–767
    American claims (*see also* Hukuang Railway loan, *infra*): Chinese preferential treatment of Japanese claims, alleged, 758–759, 766–767; Sino-American claims

China—Continued
Claims against China—Continued
commission, proposed, 753, 754–755, 762; status of, and U. S. efforts for action by Chinese Government, 754–758, 759–761, 762–763, 766–767
British claims (*see also* Hukuang Railway loan, *infra*), 753–754, 766
Hukuang Railway loan of *1911*, defaults in servicing of, 761–762, 763–766
Japanese claims, question of preferential treatment, U. S. interest in, 758–759, 766–767
Sino-American claims commission, proposed, 753, 754–755, 762
Communists and bandits. *See under* Protection, *infra, and under* Sino-Japanese dispute.
Consortium agreement of *Oct. 15, 1920*, 30, 536, 553, 560, 592, 617, 761
Cotton-wheat credit of *1933* (U. S.), 211, 579, 585–587, 602–603, 616–618, 651–654, 656–658, 658–659, 661–664
Customs problems:
American citizens in Chinese Maritime Customs Service, position of, attitude of U. S. Legation with respect to, 795–796
Customs Rules of *1868*, reservation of American rights under, 790–795
Case of Dollar Steamship Co., 792–795
New Customs Preventive Regulations in apparent contravention of Rules of *1868*, 790–792
Diplomatic and consular relations:
Legation of China in United States, elevation to status of Embassy, 513, 522, 526
Legations of foreign powers in China, elevation to status of Embassies. *See* Legations of foreign powers, *infra*.
U. S. Consulate General at Nanking, abolition of, 516–517, 521–522, 523–524
Economic reconstruction of China and question of financial assistance by other governments, 526–664
American economic mission to China, unofficial, 527, 527–528, 538–539, 541, 583, 607–609, 941
American loans and credits: Chicago Bank Loan, 649, 652–653, 655–656, 658, 660, 663; Farm Credit Administration, 647–650, 651–654, 656–658, 658–664; Reconstruction Finance Corp. (cotton-wheat credit of *1933*), 211, 579, 585–587, 602–603, 616–618, 651–654, 656–658, 658–659, 661–664
Borah Resolution in U. S. Senate, Chinese concern over, 576–577
Boycott, anti-American, question of, 579, 584, 588–589, 594, 602–603; Japanese instigation, alleged, 579, 602–603, 610–611
British attitude (*see also* Financial experts, *infra*), 542, 544–545, 547–550, 553–554, 554–555, 556–558, 563, 565, 569–572, 575, 628–629, 630, 645–647
Buck, J. Lossing, mission as economic observer in China, 574, 580–581
Chinese efforts at reconstruction and currency reform (*see also* Silver, *infra*), 18–19, 34, 84, 133, 532–534, 537, 540, 554, 565–566, 566–567, 582–584
Financial experts, question of assignment by foreign governments to their diplomatic missions in China:
British initiative, and consideration of question by United States and other governments, 96, 322, 323, 330, 567–568, 569, 571–572, 574–575, 577, 580, 591–593, 594–602, 603–604, 605–607, 609–610, 611, 612–616, 618–621, 623–627, 631–632, 636, 643, 645–646, 918
Leith-Ross, Sir Frederick, mission as British expert, 308, 328, 353, 378, 429–431, 459–460, 503, 504, 506–507, 591–593, 594–595, 618–621, 623–627, 629, 631–632, 636, 643, 645–646, 918; question of visit to United States, 595–598, 605–606, 612–616
General economic situation (*see also* Silver, *infra*), 84–85, 131–132, 159–160, 307–308, 395, 506–507, 532–533, 537, 551–554, 574, 584, 587–588, 589–590, 592, 604–605, 627
International and foreign loans, question of, 20, 24, 27, 30, 38–39, 54, 57, 74, 81, 89, 96, 130, 132–133, 165, 236, 322, 506–507, 532–533, 534, 536–537, 539–540, 542, 543, 544–550, 553–558, 560–566, 573–574, 576–577, 611, 620–621, 624, 625–626, 631–632, 633, 638, 642–643, 644–645, 656
Japanese attitude, 27, 54, 66, 80, 81–82, 84, 89, 133, 236, 417, 443–444, 544–545, 550, 554, 560–563, 564–565, 566, 568–569, 572, 573–574, 577, 603, 632, 634–635, 639–641, 642–643, 644–645

China—Continued
Economic reconstruction of China—Continued
League of Nations, technical cooperation with China, 582, 621–623
Loans. *See* American loans *and* International and foreign loans, *supra.*
Monetary decree of *Nov. 3. See* Silver: Nationalization, *infra.*
Railway construction, 32, 583–584, 608–609; German contracts, 583
Shanghai situation, 79–80, 84, 531, 543–544, 551–553, 559, 565–566, 566–567, 578, 581, 587–588, 589–590, 593–594, 627
Silver: Effect of U. S. silver-purchasing program on Chinese economy, question of, 37, 38, 45, 84, 142–143, 147, 242–243, 308, 330, 375, 510, 526, 527, 528–532, 533–536, 537, 539–544, 552–553, 558–560, 572–573, 576, 578–579, 582, 584–585, 587–590, 594, 604–605, 628, 649, 834; nationalization of silver by China, and subsequent negotiations with United States, 417, 430–431, 443–444, 504, 506–507, 629–631, 632–645, 650, 654–655
Sino-American trade: American economic mission, unofficial, 527, 527–528, 538–539, 541, 583, 607–609; statistics, 510
Technical experts to be attached to foreign diplomatic missions, proposed. *See* Financial experts, *supra.*
Expropriation of land and registration of American educational institutions with Chinese authorities, U. S. attitude, 815–817
Foreign policy, 207–213, 308–309
France, relations with, 308
Hsu Mo, 268–269, 458, 459
Hu Shih, 400–401, 410, 482–483
Italy, relations with, 508, 509, 802
Japan, relations with. *See* Sino-Japanese dispute *and under* Japan.
Kan Chieh-hou, 202–207
Killing of Chinese citizen by American naval enlisted men, alleged, U. S. denial of responsibility for, 702–711
Kung, H. H., 37–38, 189–190, 325, 375–376, 472, 480, 530–532, 533–534, 537, 611–612, 625–626
Kuomintang:
Fifth Congress of, 378, 406, 407, 411–412, 420, 426, 504; speech of Chiang Kai-shek, 426–428
Miscellaneous, 262, 294–295, 298, 304, 319, 348, 396, 438–439, 487
League of Nations: Arms embargo, question of, 738; narcotics control in China, League recommendations and U. S. attitude, 739–741, 742–743, 744–752; technical cooperation with China, 582, 621–623
Legations of foreign powers in China, elevation to status of Embassies:
Chinese attitude and reciprocation, 308–309, 509, 511, 513, 522, 526
Germany, 523
Italy, 168, 508, 509
Japan (*see also* Sino-Japanese dispute, *infra*), 508–510, 511–513, 514–516, 517–519
Sino-Japanese dispute, relation to, 90, 165, 166, 167, 168, 185, 190, 197, 205, 246, 303, 379
Soviet Union, 509–510
United Kingdom, 508, 509, 510–511, 512, 516, 524–525
United States, 508–526
Loans:
American. *See under* Economic reconstruction, *supra.*
Hukuang Railway loan of *1911*, defaults in servicing of, 761–762, 763–766
International and foreign, question of. *See under* Economic reconstruction, *supra.*
Mao Tze-tung, 695
Missionaries and mission property (*see also* Protection, *infra*), questions of land rent tax and of reregistration of title deeds to real property in China, 803–804, 806–808, 809–811, 813
Monopolies, Chinese tendency toward establishment of, and U. S. representations against, 767–789
American firms, question of participation in monopoly arrangements, 773–774, 779–781, 788–789; other foreign firms, 769
British attitude, 772, 778–779, 782
Japanese position, 771, 772–773, 778, 779
Monopolies on—
Antimony (Hunan Province), 767–768, 769, 771–773, 775, 778–779, 782–784, 786–789
Cigarettes, 783–784
Kerosene (Kiangsi Province), relation to Communist and bandit suppression program, 775–777, 781
Matches, 770, 773, 783, 784
Oil refining and refined oil products, 773–775, 779–781
Salt (Kiangsi Province), 781, 784
Sugar, proposed, 285, 769, 770
Sulphuric acid, 783–784
Tungsten (Kiangsi Province), 785–786, 789
Narcotic drugs and opium control, 739–753
Chinese regulatory action, 270, 744, 753

China—Continued
Narcotic drugs and opium control—Continued
League of Nations recommendations for control, and U. S. attitude, 739–741, 742–743, 744–752
Smuggling on American naval vessels, alleged, question of, 739, 741–742
National Economic Council, 32, 66, 347, 621–623
National unity, 123, 306–307, 407–408, 506
Pilotage procedure at Shanghai, U. S. reservation of rights with respect to proposed changes in, 312, 797–800
Postal questions, 1, 2, 9, 26, 36, 197, 220
Protection of American and other foreign lives and property, 664–700
American mission properties, occupation by Chinese troops, 694–695
Bush, Father Henry J., kidnaping of, 684, 685–686, 687
Communist bandits, military activity (*see also* Stam, *infra*), 664–667, 670, 678–679, 680–684, 686–687, 688, 689–690, 695, 697–700; U. S. representations for protection of American nationals, 666, 670, 678, 679, 694, 700
Evacuation of Americans and other foreigners from places of danger, question of, 678, 679, 680–684, 685, 688, 690–691, 692, 693, 695, 696, 697, 698, 699
Japanese difficulties concerning provincial taxes at Swatow, relation to, 408, 689, 690–691, 692, 693, 696
Stam, Rev. John C. and wife, murder of, 667–668, 670–675, 676–678
Transportation of Chinese troops on American and other foreign commercial vessels, question of, 668–669, 675–676, 679
Railways:
Chinese Eastern Railway. *See under* Sino-Japanese dispute: "Manchoukuo".
Construction, proposed, 32, 161, 583–584, 608–609
Hukuang Railway loan of *1911*, 761–762, 763–766
Peiping-Hankow Railway, 420, 454, 461, 757–758, 760–761
Peiping-Mukden Railway, 344, 347, 348, 450, 452, 462, 499
Shanhaikwan-Peiping Railway, 421, 423
South Manchuria Railway, 330–333, 350, 372, 378, 942
Tientsin-Pukow Railway, 161, 367, 461, 766–767
Tsingtao-Tsinan Railway, 183–185
Reviews of developments in China during *1935*, 306–309, 502–507
Shanghai (*see also under* Economic reconstruction, *supra, and under* Sino-Japanese dispute), pilotage procedure (Pilotage Regulations of *1868*), U. S. reservation of rights with respect to proposed changes in, 797–800; Japanese attitude, 285, 312
Shangpu Regulations, 806, 808
Siam, relations with, 308
Silver. *See under* Economic reconstruction, *supra.*
Sinkiang Province, Chinese concern over Soviet influence in, 7, 31–32, 120, 123–124, 186, 258–261, 289, 300–301, 307, 308, 361–362, 383, 479, 507
Soong, T. V., 19, 20, 73–74, 84, 130, 159–161, 335, 522, 532–533, 553, 555, 566, 577, 580–581, 609–610, 621, 624
Sun Fo, 76–77, 296, 335, 355–356
Sun Yat-sen, 61, 62, 70, 73, 76–77
Tang Yu-jen, assassination, 498, 504
Ting, V. K., 408–410
Taxation: Consolidated taxes as security for American loans, 586, 617, 658; land rent tax, question of payment by foreigners, 802–804, 812–813; provincial taxes at Swatow, Japanese demands in connection with, 408, 689, 690–691, 692, 693, 696
Time magazine, editorial comments on Chinese leaders, Chinese objections to, 817–820
Title deeds to real property of Americans in China, question of re-registration of, 802–814
Tsingtao-Tsinan Railway notes, question of redemption by Chinese Government, 183–185
United Kingdom, relations with. *See under* United Kingdom.
U. S. Army forces at Tientsin, recommendation of War Department for withdrawal of, 700–702
U. S. consular courts in China, 746–748, 1091, 1093
U. S. Consulate General at Nanking, abolition of, 516–517, 521–522, 523–524
U. S. Court for China, 1088, 1101–1103
U. S. Legation, elevation to status of Embassy, 508–526; appointment of Minister Nelson T. Johnson as Ambassador, 520, 522–523

China—Continued
U. S. silver-purchasing program. *See* Economic reconstruction: Effect of U. S. silver-purchasing program on Chinese economy, *supra*.
Wang, C. T., 447–448
Wang Ching-wei, 6–7, 60–62, 70–71, 129, 201, 212, 251, 272–273, 296, 304–305, 320, 335, 336, 337, 338–339, 389, 394–395, 420, 487, 503
Yu Hsueh-chung, 188, 191–192, 196, 198–199, 200, 201, 202, 214, 217
China Weekly Review, 375, 410–411
Chinese Eastern Railway. *See under* Sino-Japanese dispute: "Manchoukuo".
Chosen. *See* Korea.
Claims. *See under* China.
Comintern Congress, 292, 345, 440
Communists. *See under* China: Protection *and* Sino-Japanese dispute.
Czechoslovakia, 735

Dern, George H. (Secretary of War), visit to China, 375–376
Diplomatic and consular relations. *See* Japan: Consular convention; *and under* China *and* Sino-Japanese dispute: "Manchoukuo".
Dollar Steamship Co., 792–795
Duranty, Walter, 193, 194

Eden, Anthony, 103, 108–109, 293
El Salvador, 115, 117
Eminent domain, 815–817
Ethiopian-Italian dispute, allusions, 115, 116, 292–293, 357, 394, 431, 442, 466, 507, 738
Export-Import Bank, 538–539, 607, 941
Extraterritoriality. *See under* Sino-Japanese dispute: "Manchoukuo".

Far Eastern Crisis. *See* Sino-Japanese dispute.
Fisheries. *See under* Japan.
Formosa, 137–138
France, 112–113, 174–175, 308, 317, 329, 343, 349, 595, 620, 625, 676, 681, 682, 714–715, 720, 791
Freedom of speech and freedom of the press, 410, 817–820, 865

General American Car Co., 757–758, 760–761
General Motors Corp., 1051
Germany, 95–96, 107, 108, 110, 114, 115, 116, 374, 481–482, 523, 583, 943, 946
Great Britain. *See* United Kingdom.

Hirota, Koki. *See under* Japan.
Hong Kong (*see also* China: Arms and munitions: Transshipment *and* Japan: Trade relations: Philippines), 624, 627

Immigration restrictions, 135, 364–365, 834–835
India, 530
Inner Mongolia, 3, 53, 234–235, 307, 334–335, 341–342, 488, 494, 499, 507
Italy: Ethiopian-Italian dispute, 115, 116, 292–293, 357, 394, 431, 442, 466, 507, 738; relations with China, 168, 508, 509, 802

Japan (*see also* Sino-Japanese dispute), 821–1104
Alien land legislation in Arizona and California, proposed, Japanese representations and U. S. attitude, 1068–1072
Amau statement of *Apr. 17, 1934*, 46, 89, 112, 376, 826, 874
American commercial interests, U. S. attitude regarding corporation in "Manchoukuo" organized under American law but without American financial interest, 1100–1104
American economic mission, unofficial, 838–840, 841, 941–942
Australia, relations with, 363–365, 946
Automobile industry, U. S. attitude on proposed legislation violative of American treaty rights, 875, 1048–1052
Canada, relations with, 946, 984, 987
Chefoo incident between American and Japanese nationals, 1087–1097
China, relations with (*see also* Sino-Japanese dispute):
Aviation, alleged Japanese interest in permission to establish civil aviation in China, 801–802
Claims, alleged Chinese preferential treatment of Japanese claims, 758–759, 766–767
Economic reconstruction of China, and question of financial aid, Japanese attitude, 27, 54, 66, 80, 81–82, 84, 89, 133, 236, 417, 443–444, 544–545, 550, 554, 560–563, 564–565, 566, 568–569, 572, 573–574, 577, 603, 632, 634–635, 639–641, 642–643, 644–645
Emperor of Japan, alleged derogatory publicity in China, 293–294, 298, 305, 375
Legation in China, elevation to status of Embassy, 90, 165, 166, 167, 168, 185, 190, 197, 205, 246, 303, 379, 508–510, 511–513, 514–516, 517–519
Monopolies in China, Japanese attitude, 771, 772–773, 778, 779
Pilotage procedure at Shanghai, Japanese attitude, 285, 312
Provincial taxes at Swatow, controversy concerning, 408, 689, 690–691, 692, 693, 696

Japan—Continued
Commercial treaty with United States (*1911*). *See* Treaty, *infra*.
Conflict between American and Japanese nationals in Chefoo, U. S. refusal to accede to demand of Japanese Consul for an official apology, 1087–1097
Consular convention with United States, proposed, 1052–1068
"Continental policy", 385–386, 387
Contract rights of Oriental Consolidated Mining Co. (American firm in Korea), U. S. efforts to protect, 1097–1099
Doihara, Kenji. *See under* Sino-Japanese dispute.
Economic situation, general, 29, 83, 85, 97–100, 105–106, 112, 134–135, 138–140, 143–144, 247, 845–852, 949–951
Emperor. *See under* Political situation, *infra*.
Fisheries:
Alaskan coast, Japanese disinclination to negotiate regulatory convention with United States, 1022, 1072–1080; U. S. national defense, relation to, 1073
Licensing of fishing in Japanese waters, 1085, 1086
Siamese waters, poaching by Japanese fishermen, 172
Soviet Union, fisheries negotiations with, 107, 169, 189, 299, 310, 346, 1074–1075
Foreign policy (*see also* Sino-Japanese dispute: Hirota), 51–52, 134–144, 148–149, 375–376, 472, 492, 500–501
Germany, relations with, 95, 181, 481–482, 946
"Goodwill" flight to Nanking sponsored by Tokyo *Asahi*, 178
Hirota, Koki. *See under* Sino-Japanese dispute.
Immigration question, U. S.-Japan, 135, 834–835
Kurusu, Saburo (*see also* Trade relations with United States, *infra*, *passim*), 500–501
Latin American States, relations with, 940, 942–946, 965, 983
League of Nations, Japanese withdrawal from, 46, 83, 93–95, 113–117, 246, 501, 874; continued representation on committees, question of, 145, 146, 182–183
"Manchoukuo". *See under* Sino-Japanese dispute.
Mandated islands in Pacific, 35–36, 94, 114–115, 116, 145–146
Matsumoto, M. (of Japanese Foreign Office), 202–207
Matsumoto, S. (of Rengo News Agency), 160, 161–163
Matsuoka, Yosuke, 331–333, 372
Japan—Continued
Military element, political activities of: Cliques in Japanese Army, 100–101, 370–373, 379–380; conflicting views of military and civil authorities, 75, 80, 82–83, 88–89, 90–93, 100–101, 119–120, 122, 126, 139–140, 148–151, 162–163, 167–168, 185, 190, 193, 194, 197, 202, 203–204, 215–220, 245–248, 251, 257, 281–282, 283–284, 303–304, 309, 314, 352–353, 356, 365–366, 379, 465, 515–516, 519, 561–562, 824, 825, 826, 872–874
Minobe controversy relative to position of the Emperor, 869–871, 872–874, 875
Natural resources: Analysis by U. S. Ambassador, 846–847; development and exploitation by foreign nationals, question of, 1082, 1085–1087
Naval limitation, attitude toward, 14, 46, 47, 49, 83, 246, 827–828, 853–854, 862–863, 874
Nishihara loans, 66, 504
Oil monopoly (*see also under* Sino-Japanese dispute: "Manchoukuo"), situation of foreign oil companies:
Discussions between companies and Japanese authorities, 877–878, 880, 883, 896–897, 926–927, 930–931, 935–936, 938–939; five-point memorandum of *Apr. 13*, 896–897, 930–931, 935
U. S. and British views and representations, 883–884, 922–923, 927–928, 931–932, 934–935, 936, 937–938
Okada, Adm. Keisuke (Prime Minister), 149, 283–284
Oriental Consolidated Mining Co. (American firm in Korea), U. S. efforts to protect contract rights of, 1097–1099
"Pax Japonica", 824–825, 827
Philippines (*see also under* Trade relations, *infra*), Japanese attitude on proposed restrictions upon development and exploitation of natural resources by aliens in the Philippines, 1080–1087
Poland, relations with, 481–482
Political situation (*see also* Military element, *supra*):
Analyses of, in relation to Far Eastern situation and U. S. policies, 821–837, 842–852, 854–857, 874–876
Emperor: American derogatory publicity, alleged, 863–869, 871–872; Chinese derogatory publicity, alleged, 293–294, 298, 305, 375; interview with Wm. C. Bullitt (U. S. Ambassador to Soviet Union), 4–5; position in Japanese political system,

Japan—Continued
Political situation—Continued
statements issued by Japanese Government, 869–871, 872–874, 875
Expansionist urge, 823–824, 843–852
Government changes and reorganization, 148–149, 284, 314, 858–861, 876
Nationalism, 874–876
Naval limitation, Japanese position, 14, 46, 47, 49, 83, 246, 827–828, 853–854, 862–863, 874
Religion, relation to, 869–870, 875–876
"Shidehara diplomacy", 563
Siam, relations with, 155–158, 169–177, 178, 315–317, 891
Soviet Union, relations with. *See under* Soviet Union.
Suma, Yakichiro. *See under* Sino-Japanese dispute.
Tanaka Plan, 8, 325
Trade relations with United States:
American economic mission, unofficial, 838–840, 841, 941–942
Cotton textile trade (*see also* Philippines, *infra*), 951–952, 975, 1004–1006, 1011, 1017–1020, 1029, 1033–1034, 1037–1039, 1047
Economic situation, relation to, 949–951
Japanese goods, voluntary restriction of imports into United States, 951–954, 955–957, 960, 972, 974–975, 979–981, 981–985, 1004–1006, 1011–1012, 1017–1020, 1029, 1033–1035, 1037–1039, 1040–1042, 1047
Philippines, U. S.-Japanese agreement relative to Japanese voluntary restriction of cotton imports into: Negotiations, 952, 954–955, 958–970, 971–974, 976–979, 981, 985, 987–1004, 1006–1007; text of memorandum of agreement, and U. S. press release, 1007–1010; textiles transshipped through Hong Kong, and other questions in connection with implementation of agreement, 1012–1017, 1020–1022, 1022–1033, 1035–1037, 1039–1040, 1042–1047, 1048
Trilateral trade arrangements with United States and Latin America, question of, 940–941, 946–947, 948
U. S. trade policies, 942–945, 947–949, 957–958, 970–971, 986–987; relation of Japanese difficulties in Latin America to, question of, 942–946, 965, 983
Treaty of commerce with United States (*1911*): Consular article, question of supersession, 1056, 1063; proposed Japanese automobile legislation in violation of, 875, 1048–1052
United Kingdom, relations with. *See under* United Kingdom.
U. S.-Japanese relations (*see also* Trade relations, *supra*):
Analyses, general, 14, 821–837, 842–852, 854–857, 874–876
Emperor of Japan, alleged derogatory publicity in United States: Incident at Seattle, 867–869, 871–872; *Vanity Fair* case, 863–867
Immigration question, 135, 834–835
Naval building programs, 862–863
Nonrecognition of "Manchoukuo", U. S. policy, 832–833
U. S. naval preparedness, question of, 821–829, 830, 837, 842–843
War, possibilities of, 6, 828, 829, 836–837, 853–854, 855–857
Yoshida, Shigeru, visit to United States, 840–841, 853–854

Kidnaping of American missionaries by bandits in China, 667–668, 670–675, 676–678, 684, 685–686, 687
Korea, American firm operating in, U. S. efforts to protect contract rights of, 1097–1099
Kung, H. H. *See under* China.

League of Nations:
China: Arms embargo, question of, 738; narcotics control in China, League recommendations and U. S. attitude, 739–741, 742–743, 744–752; technical cooperation of League with China, 582, 621–623
Japan: Mandated territories, 35–36, 94, 114–115, 116, 145–146; withdrawal from League, 48, 83, 93–95, 113–117, 144–147, 246, 501, 874
Non-member states, question of representation on committees, 145, 146–147, 182–183
Permanent Court of International Justice, 94
Siam, attitude toward League recommendations regarding Manchurian dispute, 157, 170, 171–172
Sino-Japanese dispute (*see also* Japan *and* Siam, *supra*), 18, 44, 279, 378, 431, 442, 489
Leith-Ross, Sir Frederick, mission to China, 308, 328, 353, 378, 429–431, 459–460, 503, 504, 506–507, 591–593, 594–595, 618–621, 623–627, 629, 631–632, 636, 643, 645–646, 918; question of visit to United States, 595–598, 605–606, 612–616
Loans. *See the following under* China: Claims: Hukuang Railway loan, Economic reconstruction: American loans *and* International and foreign loans.

Lytton, Earl of (Lord), 56–57

MacArthur, Gen. Douglas, 823
Macao, 207, 732, 737
"Manchoukuo". *See under* Sino-Japanese dispute.
Manchuria. *See* Sino-Japanese dispute: "Manchoukuo".
Mandated islands of Pacific, 35–36, 94, 114–115, 116, 145–146
Missionaries and mission property. *See under* China.
Mongolia. *See* Inner Mongolia *and* Outer Mongolia *under* Sino-Japanese dispute.
Monopolies. *See* Japan: Oil monopoly; Siam: Treaty; *and under* China.
Murders. *See under* Sino-Japanese dispute; *also* Protection: Stam *under* China.

Narcotics. *See under* China.
National City Bank of New York, 65, 101, 544, 552, 559, 589, 632, 635, 636, 761, 1104
National Foreign Trade Council, 527–528, 838, 839, 840, 841, 941
National Recovery Act (*1933*), 952, 1019, 1020
Naval limitation, allusions to, 14, 46, 47, 49, 83, 114, 115, 246, 328–329, 363, 365, 442, 470–471, 545, 550, 823, 827–828, 843, 853–854, 862–863, 874
Netherlands, representations concerning oil monopoly in "Manchoukuo", 35, 892, 894, 904–905, 917
Neutrality Resolution (U. S.), 354, 431

Oil monopolies in—
  China, 773–777, 779–781
  Japan. *See under* Japan.
  "Manchoukuo". *See under* Sino-Japanese dispute: "Manchoukuo".
"Open-door" policy, 35, 49, 67, 153, 464, 822, 831–832, 898, 900
Opium. *See* China: Narcotic drugs.
Outer Mongolia. *See under* Sino-Japanese dispute.

Pan-Asiatic movement, Japanese ambitions concerning, 8–9, 37–38, 303–304
Philippines (*see also under* Japan), 354, 363, 376, 834
Poland, 481–482, 720, 1052, 1056–1057, 1061, 1064
Portugal, 207
Powell, John B., 375
Property. *See the following under* China: Expropriation, Missionaries and mission property, *and* Title deeds.
Protection of American and other foreign lives and property. *See under* China.

Railways. *See under* China.
Recognition. *See under* Sino-Japanese dispute: "Manchoukuo".
Reconstruction Finance Corp., 579, 585–587, 602–603, 616–618, 651–654, 656–658, 658–659, 661–664
Roosevelt, Franklin D. (President), 34, 116, 540

Salmon fishing in Alaskan waters, proposed U. S.-Japanese convention to regulate, 1072–1080
Siam: Relations with Japan and other countries, 155–158, 169–177, 178, 308, 315–317, 891; treaty of friendship and commerce with United States (*1920*), negotiations for revision, 1105–1111
Silver. *See under* China: Economic reconstruction.
Simon, Sir John, 545, 610
Sinkiang. *See under* Sino-Japanese dispute.
Sino-Japanese dispute, 1–507
  Amau statement of *Apr. 17, 1934*, 46, 89, 112, 376, 826, 874
  Anti-Japanese activities and propaganda, 36–37, 48, 54, 58, 66–67, 112, 113, 125, 127–128, 132, 141–142, 167, 168, 172, 179–182, 186, 187–188, 189–190, 201–202, 234–235, 239, 240, 244, 318–319, 375, 390, 391, 396–398, 402, 403–404, 414, 415, 418–419, 440, 475–476, 519–520; Shanghai incidents and student demonstrations, 293–295, 298, 305, 413–416, 418–419, 424, 495–499, 500
  Assassinations:
    Chinese leaders: Tang Yu-jen, 498, 504; Wang Ching-wei, Chiang Kai-shek and others, attempt upon lives, 394–395, 503
    Japanese leaders and sympathizers, 344, 350, 371, 611
  Autonomy movements. *See under* North China, *infra*.
  Aviation and air communications problems: Establishment of air services, 1, 10, 160–161, 197, 273, 344, 350–351, 360; Hangchow Aviation School, question of continued reliance on American advice and supervision, 18, 21, 24, 27, 30, 177, 224–225, 339
  Blue Shirt (Coat) Society, 179, 180, 181, 218, 240, 262, 350, 382, 390, 398, 399, 405
  Boycott, anti-Japanese, 48, 54, 58, 112, 113, 125, 127–128, 141–142, 172, 318
  British attitude (*see also* "Manchoukuo" *and* North China: U. S. position and exchange of views with British Government, *infra*), 28–29, 56–57, 59–60, 92–93, 95–97, 434, 448, 460, 646
  Censorship, 102, 223, 254–255, 294
  Chiang Kai-shek:
    Address at Fifth Kuomintang Congress, 426, 428
  Reconstruction Finance Corp., 579, 585–587, 602–603, 616–618, 651–654, 656–658, 658–659, 661–664
  Roosevelt, Franklin D. (President), 34, 116, 540

Sino-Japanese dispute—Continued
Chiang Kai-shek—Continued
Administrative changes and political problems of National Government, 338, 367–368, 487; assumption of Presidency of Executive Yuan, *Dec.* 7, 477, 504, 505
Ariyoshi-Chiang conversations, 428, 429, 431–432, 432–433, 440, 442, 443, 453
Attempted assassination of, 394–395
Attitude of Japanese military toward Chiang, 10, 75, 91, 164–165, 199, 204, 205–206, 213–215, 218–219, 220, 223, 229–230, 297; of Japanese Foreign Office, 218–219
Campaign against Communists, 123, 125, 129–130, 166, 251, 307, 314–315, 319, 503, 506, 551
Chinese element antagonistic to Chiang, 238, 241
Intervention in local conversations with Japanese military in North China, 428
Policy on Japan, and actions in accordance with, 18–19, 39–40, 43–44, 55, 71–73, 122, 130, 211, 212, 213, 213–215, 238–239, 244, 273, 297, 314–315, 320–321, 336, 380, 401, 408, 435–436, 447
Unification of China, efforts for, 306–307, 503, 506
Chiang Kai-shek, Madame, 21–22, 33–34, 40, 130, 335, 426
Chinese attitude toward Japanese expansionism, 68–69, 70–73, 83–84, 189–190, 325–326, 340, 352–354, 375–376, 389, 391, 392–393, 395, 400–401, 403–404, 407–411, 455, 456, 458, 459, 482; toward action and attitudes of U. S. and British Governments, 287, 295–296, 336–337
Chinese Eastern Railway. *See under* "Manchoukuo", *infra*.
Chinese foreign policy, dominant influence in formulation of, 207–213, 308–309
Chinese National Government, Cabinet and administrative changes, 296–297, 320, 321, 335–336, 337–339, 477, 484, 487, 504, 505
Chinese secret organizations, 179, 180, 181, 190, 218, 240, 262, 350, 382, 390, 391, 396–397, 397–398, 399, 405
Chinese students educated abroad, relation to situation, 207–210
Communications and transport, 1, 3, 9, 10–11, 16, 81, 86, 160–161, 197, 220, 273, 344, 350–351, 360, 378, 423, 450, 455, 456, 462
Communists and bandits: Activities, 8, 69, 190, 357, 358, 359, 380, 392, 496; Chinese Government suppression program, 7, 37, 40, 44, 123, 125, 130, 163, 166, 217, 251, 307, 314–315, 319, 367–368, 503, 506, 551; Japanese attitude toward, 11, 48, 185, 319, 350, 378, 379, 404–405, 413, 417–418, 427, 440, 445–446
"Cooperation" between China and Japan, Japanese diplomatic campaign for (*see also* Anti-Japanese activities, *supra*, *and* Demands, *infra*):
Alliances, proposed, 20–21, 21–22, 23–24, 33–34, 300, 323, 325, 353
Desiderata of Japanese military, 17–18, 20, 23–24, 36–37, 54, 58, 66–67, 73–74, 80–81, 111–112, 125, 160–163
Economic and fiscal matters, 41, 57, 62–63, 72–73, 97–100, 140, 160–163, 273, 324, 325, 340, 378, 392
Hirota policy, 90–91, 100–101, 119–120, 149–151, 215
Japanese Legation in China, elevation to status of Embassy, 90, 165, 166, 167, 168, 185, 190, 197, 205, 246, 303, 308–309, 379
Japanese military and civil advisers, 30, 66, 67, 161, 162, 300, 403, 439
Political relationship between China and Japan, character of, 7–9, 16–18, 23, 233–234, 236, 320, 325
Sino-Japanese negotiations, progress of, 22–24, 26–27, 32–33, 36–37, 41, 54, 67–68, 73–74, 91–93, 113, 123, 125–132, 160–165; indications of Chinese tendency to yield, 18–19, 39–40, 43–44, 55, 60–62, 70–73, 76–77, 127–129, 159–160
Trade relations, 62–63, 80, 84–86, 90, 97–100, 111–112, 132, 285
Western influences, elimination of, 15, 37–38, 40, 353–354, 378, 417, 430
Dairen Conferences (Japanese military), 9–11, 25, 82, 365–366, 368, 392, 408
Demands of Japanese military on China:
May 23 June 11, demands resulting from disturbed conditions in Peiping–Tientsin area, 178–181, 181–182, 185, 186, 187–189, 189–192, 196–202, 214, 218–221, 221–223, 229–231
June 11 demands (North China), 231–233, 234, 235–241, 241–242, 244, 248, 251, 252, 253, 255, 257, 261, 262, 267, 276–277, 287
"New" demands, *July–Oct.*, rumors concerning, 322–323, 323–324, 325–326, 378–380, 381–382

Sino-Japanese dispute—Continued
Demands, etc.—Continued
"Three-point" program (united program of Japanese military and civil authorities):
Formulation of, and Japanese efforts to obtain Chinese acceptance, 356–357, 366, 379, 381, 389, 391, 393–394, 398–399, 404–405, 417–418, 422, 428, 430, 431–432, 432–433, 435–437, 440–442, 443–444, 447–448, 449, 453, 455, 460–462, 503; Ariyoshi-Chiang conversations, 428, 429, 431–432, 432–433, 440, 442, 443, 453
Policy of China: "Conciliation" policy, 389, 391, 393–394, 409, 410–411; military resistance, question of, 400–401, 403–404, 405, 407–411, 424, 428, 436, 459
U. S. and British attitudes, and question of representations to Japan based on Nine Power Treaty, 192, 248–249, 249–251, 252, 253–254, 256–258, 263, 267, 274, 286, 287, 295–296, 336–337, 376–378, 461–462, 919; Japanese position, 252, 262
Demilitarization and military activity (*see also* North China: Demands, *infra*), 3, 12, 13, 19–20, 58, 178–179, 180–181, 185, 186, 190–192, 198, 214, 220, 222, 229, 232, 233, 234, 249, 264, 378, 384, 429, 438, 439, 443, 447, 455, 456, 491
Doihara, Kenji, activities of, 10, 58, 61, 67, 68–69, 75, 82, 91, 130, 163, 202–203, 221, 270–271, 277–278, 280, 352, 358, 421, 425, 433–434, 439, 442, 450, 455, 457, 483, 504
Economic and fiscal matters:
Chinese financial situation: Efforts at economic reconstruction and currency reform, 18–19, 34, 84, 133; international and foreign loans, question of, 20, 24, 27, 30, 38–39, 54, 57, 74, 81, 89, 96, 130, 132–133, 165, 236, 322, 506–507; Japanese attitude and question of financial assistance to China, 22, 27, 54, 66, 68, 80, 81–82, 84, 89, 133, 236, 417, 443–444; Shanghai situation, 79–80, 84; silver question and other factors in general economic situation, 37, 38, 45, 84–85, 131–132, 142–143, 147, 159–160, 242–243, 307–308, 330, 375, 395, 417, 430–431, 443–444, 504, 506–507; technical financial experts, question of assignment by foreign governments to their missions in China, 96, 308, 322, 323, 328, 330, 353, 378, 429–430, 459–460, 503, 504, 506–507
"Cooperation" between China and Japan, Japanese efforts for, 41, 57, 62–63, 72–73, 97–100, 140, 160–163, 273, 324, 325, 340, 378, 392
"Manchoukuo", 85–86
Miscellaneous, 8–9, 183–185, 284–285, 344, 347, 361, 390–391, 449
"Greater Asia" policy, 73, 77
Hirota, Koki (Japanese Foreign Minister): Analysis of Japanese foreign policy (speech of *Jan. 22*), and commentary thereon, 13–15, 29, 45–49, 60–61, 70–71, 73; biographical sketch, 149–150; policies, views, and influence, 5, 51, 67–68, 88–89, 90–91, 100–101, 119–120, 149–151, 215, 245–246, 262, 314, 492, 562–563; visit to China, proposed, 20–21, 22, 26–27, 122, 129
Inner Mongolia, 3, 53, 234–235, 307, 334–335, 341–342, 488, 494, 499, 507
Japanese policy on China, conflicting views of military and civil authorities (*see also* Demands: "Three-point" program, *supra*), 75, 80, 82–83, 88–89, 90–93, 100–101, 119–120, 122, 126, 139–140, 148–151, 162–163, 167–168, 185, 190, 193, 194, 197, 202, 203–204, 215–216, 217–218, 219–220, 245–248, 251, 252, 281–282, 283–284, 303–304, 309, 314, 352–353, 478–479, 515–516, 519, 561–562, 824, 825, 872–874
Kuomintang:
Fifth Congress of, 378, 406, 407, 411–412, 420, 426, 504; speech by Chiang Kai-shek, 426, 428
Miscellaneous, 262, 294–295, 298, 304, 319, 348, 396, 438–439, 487
Kwantung Army, 91, 92, 101, 162, 179, 192, 221, 226, 228–229, 330–333, 451, 452, 454
League of Nations. *See* League of Nations: Sino-Japanese dispute.
"Manchoukuo":
Administrative difficulties, 178, 226–229
American and other foreign commercial interests (*see also* Oil monopoly, *infra*): Difficulties of, 101–102, 153–154, 228; U. S. attitude toward corporation organized under American law but without American financial interest, 1100–1104
Australian attitude toward Japan's Manchurian policy, 364
China, relations with. *See* Postal services *and* Recognition: Japanese desire for, *infra*.

Sino-Japanese dispute—Continued
"Manchoukuo"—Continued
Chinese Eastern Railway, sale by Soviet Union to "Manchoukuo", 4, 5, 9, 13, 50, 68, 76, 78, 103–106, 109, 112–113, 115, 116, 148, 184, 194, 195; French attitude, 112–113
Diplomatic and consular relations: Attendance of U. S. and other foreign consular officers at official functions, question of, 41–42, 340–341, 343; customs free entry, question of, 216, 221, 224, 275–276, 419
Economic situation, 85–86
"Emperor Kangte", visit to Japan, 14, 41–42, 117–119
Extraterritoriality: Denial of extraterritorial rights to certain foreign nationals in "Manchoukuo", 324–325, 368–369; possible relinquishment by Japanese, and U. S. attitude, 63–65, 86–88, 121; question of abolition by Manchurian authorities, 349
Germany, relations with, 374
Oil monopoly, situation of foreign oil companies:
Claims of companies for losses incurred, question of filing, 892, 893, 905–907, 913, 928–930, 933, 936–937, 938, 939
Discrimination in levying of customs duties on foreign oil, U. S. and British representations, 878–879, 880–882
Import and export restrictions, 890–891, 894–896
Katakura & Co., offer to act as agent for Standard-Vacuum Oil Co., 919–922, 925–926
Negotiations of companies with local authorities (*see also* Withdrawal, *infra*), 888–890, 907–908, 909–912, 913, 923–925, 933; with Japanese officials, 879, 882, 884
Petroleum Monopoly Law, enforcement of, 65, 884–885, 894–895
Representations to Japanese Government on basis of Nine Power Treaty and open-door principle, and Japanese attitude: Netherlands, 35, 892, 894, 904–905, 917; U. S. and British discussions and actions, and Japanese responses, 35, 97, 104, 279, 878–879, 879–880, 880–882, 885–888, 890, 891, 892–893, 893–894, 897–903, 917–919
Supplies of crude oil for refinery of Manchurian Oil Co., question of companies' refusal to provide, 891, 893, 900–901, 903–904

Sino-Japanese dispute—Continued
"Manchoukuo"—Continued
Oil monopoly—Continued
Withdrawal of stocks from Manchuria by the companies, question of, 908–909, 914–917
Outer Mongolia, relations with: Border negotiations (Manchuli conference), 284, 301–303, 321–322, 334, 357–359, 369–370, 435, 451; incident near Buir-Nor, 492–493
Postal services between China and "Manchoukuo", resumption of, 1, 2, 9, 26, 36, 197
Recognition: Attitudes of United States and other countries, 47, 115, 116–117, 151–153, 176, 373, 374, 832–833, 900, 1100–1101; Japanese desire for Chinese recognition of, 26, 27, 30, 104–105, 151–153, 197, 220, 223, 323, 325, 360, 378, 398–399, 405, 417, 440, 518
Soviet-"Manchoukuo" frontier: General problems of defense, and proposed border commission, 14–15, 193–194, 281–283, 288–289, 292, 293, 299, 357, 358; incidents involving border patrols, 365, 373–374
Soviet sale of Chinese Eastern Railway. *See* Chinese Eastern Railway, *supra*.
Trade between Japan and Manchuria, 942
Manchuli conference, 284, 301–303, 321–322, 357, 358, 451
Military alliances, proposed, 20–21, 21–22, 23–24, 33–34, 300, 323, 325, 353
Mongolia. *See* Inner Mongolia, *supra*, *and* Outer Mongolia, *infra*.
Murders (*see also* Assassinations, *supra*): Japanese marine (Shanghai), 414, 415; pro-Japanese Chinese editors (Tientsin), 168, 179–180, 181, 181–182, 186, 187–188, 189–190, 201–202, 218–219, 240, 520
New China Economic Reconstruction Society, 8–9
Nine Power Treaty (*see also* Demands: U. S. and British attitudes *and* "Manchoukuo": Oil monopoly: Representations, *supra*), 33–34, 268–269, 278–279, 377, 448, 465, 469, 477, 489
North China, political and economic penetration by Japanese military:
Administrative changes (*see also* Autonomy movements *and* Demands, *infra*), 2–3, 43–44, 214–215, 217, 218, 254, 263, 266, 268, 274, 341–342, 343–344, 347–349, 378, 398–399
Analyses by U. S. diplomatic and consular officers, 244–248, 273–274, 303–306, 385–389

Sino-Japanese dispute—Continued
North China—Continued
Autonomy movements supported by Japanese:
British attitude, 434, 448, 646
Chinese protest against Japanese interference in domestic affairs of China, 455, 456, 458
Demilitarized zone of east Hopei, inauguration of autonomous regime in, *Nov. 25*, 438, 439, 447
Early indications of separatist movements, 238, 241, 285–286, 288, 317–318, 355–356, 360, 379, 382, 384, 392
General information on developments and Sino-Japanese negotiations (*see also* Hopei-Chahar regime, *infra*), 403, 405, 412–413, 417–418, 421–422, 423–424, 424–425, 428, 429, 431, 432–435, 435–439, 440–441, 443–445, 447, 451, 452, 455–456, 457, 458, 463, 468–469, 471–472, 474–475
Hopei-Chahar regime: Events leading to establishment, 445, 451, 452, 453, 455, 457, 458, 463, 468–469, 475, 479–481, 482–484; Hopei-Chahar Political Affairs Commission (Council), 484–487, 488, 491, 493–494, 499; student demonstrations against, 480–481, 482–483, 491, 493–494
Japanese troop movements and threatened use of force, 420, 421–422, 423, 425, 427, 437–438, 442, 443, 446–447, 450–451, 452, 453, 454, 457, 462–463, 490–491; Chinese protest, 455, 456
U. S. attitude, 431, 434, 456–457, 458, 463–467, 469, 470–471, 472; statement by Secretary of State Hull, *Dec. 5*, text and discussion, 473–474, 477–479, 480
Chahar incidents, 12, 13, 15–16, 19–20, 25–26, 39, 42–43, 205, 243, 255, 256, 262, 263–264, 266, 268, 270–271, 274, 277–278, 280–281, 285; Japanese demands for settlement, 277–278
Customs problems, 1, 10, 11, 16, 376–377
Dairen Conferences (Japanese military): *Jan. 4–5*, 9–11, 25, 82; *Oct. 13–14*, 365–366, 368, 392, 408
Demands upon Chinese authorities (*see also* Chahar incidents, *supra*):
May 23–June 11, demands resulting from disturbed conditions in Peiping–Tientsin area, 178–181, 181–182, 185, 186, 187–189, 189–192, 196–202, 214, 218–219, 220–221, 221–223, 229–231
June 11 demands, 231–233, 234, 235–241, 241–242, 244, 248, 251, 252, 253, 255, 257, 261, 262, 267, 276–277, 287
U. S. and British attitudes, and question of representations to Japan, based on Nine Power Treaty, 192, 248–249, 249–251, 252, 253–254, 256–258, 263, 267, 274, 286, 287, 295–296; Japanese position, 252, 262
General situation, comments and reports on, 214–216, 255, 269, 270, 272–273, 277, 283–284, 284–285, 296–297, 314–315, 325–326, 385–389
Hopei-Chahar regime. *See under* Autonomy movements, *supra*.
Hopei Economic Association, 344, 347
Peiping Political Affairs Readjustment Committee, abolition of, 342, 343, 503
South Manchuria Railway, role in Japanese economic penetration, 330–333
Troop movements (*see also* Autonomy movements: Japanese troop movements, *supra*), 11, 15–16, 19–20, 179, 180, 181, 185, 188–189, 191–192, 197, 199, 219, 222, 229, 230, 233, 243, 249, 264, 274, 278, 362, 366, 367–368, 390, 396
U. S. diplomatic and consular officers, analyses by, 244–248, 273–274, 303–306, 385–389
U. S. position and exchange of views with British Government (*see also under* Demands, *supra*), 429–431, 434, 454, 456–457, 458, 463–467, 469–471, 472, 473–474, 477–479, 480; statement by U. S. Secretary of State on autonomy movement, *Dec. 5*, text, 473
Outer Mongolia: Relations with "Manchoukuo", 284, 301–303, 321–322, 334, 357–359, 369–370, 435, 451, 492–493; Soviet interest in, 52–53, 109, 195, 358–359, 381, 397, 446, 489–490
Postal problems, 1, 2, 9, 26, 36, 197, 220
Pratas Reef, question of Japanese purchase of, 265, 271, 283, 297
Pu-yi, 14, 41–42, 117–119, 245, 425
Shanghai: Anti-Japanese activities, 293–295, 298, 305, 413–416, 424, 495–499, 500; defense scheme, 75, 76, 78–79, 89–90, 133–134, 144,

Sino-Japanese dispute—Continued
289–291, 313, 326–327, 406; financial crisis, 79–80, 84; Japanese efforts at expansion of influence, 310–313, 346, 418–419, 496; Shanghai Conference (*Oct. 20–21*), 368, 408; student demonstrations, 495–499, 500
Siam, *rapprochement* with Japan, development of, 155–158, 169–177, 178, 315–317
Sinkiang, Chinese concern over Soviet influence in, 7, 31–32, 120, 121–122, 123–124, 186, 258–261, 289, 300–301, 307, 308, 361, 383, 479, 507
South China: Relations with Japanese, 22–23, 68–69, 75, 202–207, 210–211, 215, 254, 265–266, 269, 300, 367, 368, 404, 407–408, 416, 467, 487, 689, 690–691, 692, 693, 696; relations with National Government, 68–69, 75, 123, 130, 214, 256, 265–266, 269–270, 300, 306, 321, 337–338, 367, 368, 394, 404, 407, 412, 416, 467, 487, 506; separatist movements, 254, 321, 367
Soviet influence. *See* Soviet Union.
Statements of Japanese military officials in China: Isogai, 350–351; Sakai, 167–168; Tada, 351–352, 355, 360, 370, 385, 400, 408, 461, 503
Suma, Yakichiro, 16–18, 23, 29–30, 54–55, 126, 132–133, 210–211, 215–216, 217, 236–237, 261, 277, 284–285, 295, 398–399, 416, 423, 449, 572, 642–643
Tada statement, *Sept. 24*, 351–352, 355, 360, 370, 385, 400, 408, 461, 503
Tanaka Plan, 8, 325
Tangku armistice of *May 31, 1933*, 1–2, 10, 16–17, 25, 161, 180, 187, 192, 240, 309, 350–351, 360, 382, 400, 408, 443, 801–802
Tatan Conference (Sino-Japanese military), 39, 42–43, 263
Troop movements. *See under* North China, *supra*.
U. S. position (*see also* "Manchoukuo", *supra, and under* Demands *and* North China, *supra*): Analyses and comments by diplomatic and consular officers and other officials, 59–60, 79, 91–93, 111–112, 125–132, 134–144, 207–213, 244–248, 273–274, 295–296, 303–309, 328–330, 354, 385–389, 392–393, 407–411, 434–435, 435–437, 502–507, 821–837, 842–852, 854–857; statement by Secretary of State Hull, *Dec. 5*, on autonomy movement in North China, 473–474, 477–479, 480; U. S. Congressional resolutions, 34–36, 268–269, 278–280
Smith and Wesson, 723–724, 727
Smuggling: Narcotics, alleged smuggling on American naval vessels in China, 739, 741–742; silver, smuggling out of China, 535, 542, 604, 631, 635, 654–655
Smuts, Jan C., 365
Soong, T. V., 19, 20, 73–74, 84, 130, 159–161, 335, 526, 532–533, 553, 555, 566, 577, 580–581, 609–610, 621, 624
Soviet Union:
Buir-Nor incidents, 52–53, 109, 492–493
China, relations with (*see also* Sino-Japanese dispute: Sinkiang), 7, 8, 122–123, 154–155, 158, 166–167, 301, 308, 337, 357–359, 489–490, 509–510; Chinese Communists, 7, 195
Chinese Eastern Railway. *See* "Manchoukuo", *infra*.
Comintern Congress, 292, 345, 440
Japan, relations with (*see also* "Manchoukuo"–Soviet frontier, *infra*):
Comintern Congress, alleged attacks against Japanese Government, 345–346
Fisheries negotiations, 107, 169, 189, 299, 310, 346, 1074–1075
Nonaggression pact, question of, 51, 77–78, 281–283
Sakhalin, Northern, question of Japanese desire to purchase, 158–159, 288–289, 292, 293
Sino-Japanese dispute, effect on, 14–15, 49–54, 77–78, 81, 106–111, 193–196, 445–446; résumé by U. S. Ambassador to Japan following liquidation of Soviet interests in Manchuria, 106–111
War, possibilities of, 3–4, 5–6, 19, 91, 101, 106–107, 166, 272, 283, 309, 355–356, 377, 380, 383–384, 492
League of Nations, 108
Litvinov, Maxim, 77, 103, 186, 272, 273–274, 292–293, 397, 435, 489
"Manchoukuo", Soviet sale of Chinese Eastern Railway to, 4, 5, 9, 13, 50, 68, 76, 78, 103–106, 109, 112–113, 115, 116, 148, 184, 194, 195
"Manchoukuo"–Soviet frontier, 14–15, 193–194, 281–283, 288–289, 292, 293, 299, 357, 358, 365, 373–374
Outer Mongolia, Soviet interest in, 52–53, 195, 358–359, 381, 397, 446, 489–490
Sakhalin, 158–159, 288–289, 292, 293, 299
Siberia, development in, 158–159
Trans-Siberian Railway, 158, 446
United Kingdom, relations with, 103, 108–110, 260
U. S.–Soviet relations, 107–108, 836–837
Spain, 530
Stam, John C., and wife, murder by bandits in China, 667–668, 670–675, 676–678

Standard-Vacuum Oil Co. (*see also* Japan: Oil monopoly), 65, 776
Stimson doctrine, allusions, 116, 373, 610, 832–833
Sweden, 773, 957
Switzerland, 720, 721, 722–723, 724, 726, 731, 736, 737, 738

Tariff Act of *1930*, 952, 1047
Taxation. *See under* China.
Texas Co., 65, 889, 895–896, 904, 920–921
Thrift and Investment, Finance and Trust Corp. (Thriftcor), 1100–1104
Time magazine, 817–820
Ting, V. K., 408–410
Treaties, conventions, etc.:
Brest-Litovsk (*1918*), 410–411
China, treaties with—
Foreign powers, Boxer Protocol (*1901*), 187, 240, 461, 469
France, treaty of *1858*, 768, 771, 772*n*, 779, 787
Russia, treaty of *1860*, 299
United States. *See* U. S.–China, *infra*.
Freedom of Transit, Convention and Statute on (*1921*), 712, 713, 715
International Sanitary Convention (*1903*), 1062
Japan–Russia: Peking Basic Treaty (*1925*), 47, 345, 346; treaty of Portsmouth (*1905*), 52
Kellogg-Briand Pact, 34, 36
Korea–Japan, treaty of annexation (*1910*), 64
Narcotics: Hague Opium Convention (*1912*), 740, 743, 748; Limitation Convention (*1931*), 147, 750–751
Nine Power Treaty, 33–34, 153, 248, 250, 253, 257, 262–263, 268–269, 279, 377, 448, 460, 461, 465, 469, 477, 489, 768, 771, 772*n*, 774, 782, 787, 808
Portsmouth, treaty of (Japan-Russia, *1905*), 52
Silver agreement of *1933*, 528, 530, 569
United Kingdom-Siam, treaty of *1925*, 1110–1111
U. S.–China: Treaty of *1844*, 669, 739–740, 768, 771, 772*n*, 787; treaty on commerce and judicial procedure (*1880*), 740, 746–747; treaty of *1903*, 740, 807, 810, 811; tariff treaty of *1928*, 791; Treaty of Tientsin (*1858*), 740
U. S.–France, consular convention of *1853*, 1059
U. S.–Germany, treaty of friendship, commerce, and consular rights (*1923*), 1055, 1056, 1058–1061
U. S.–Japan: Convention of *1880*, 1056; treaty of *1911*, 875, 927, 1048–1052, 1056, 1063
U. S.–Poland, treaty of friendship, commerce, and consular rights
Treaties, conventions, etc.—Continued (*1931*), 1052, 1056–1057, 1061, 1064, 1065, 1066
U. S.–Siam, treaty of friendship and commerce (*1920*), negotiations for revision, 1105–1111
Versailles, Treaty of, 114, 116
Washington Naval Treaty (*1922*), 3, 83, 153, 874

Union of Soviet Socialist Republics. *See* Soviet Union.
United Kingdom (*see also* Sino-Japanese dispute: British attitude):
China, relations with:
Arms and munitions, U. S.-British discussions relative to export to China, 711–713, 718–719, 719–722, 730, 731–734, 735, 737
Claims against China, 753–754, 761–762, 763–766
Customs Rules of *1868*, British position in connection with, 790–791
Economic reconstruction in China. *See* China: Economic reconstruction: British attitude.
Legation in China, elevation to status of Embassy, 508, 509, 510–511, 512, 516, 524–525
Monopolies in China, British attitude, 772, 778–779, 782
Japan, relations with: Anglo-Japanese alliance, rumors concerning, 12–13; naval matters and Far Eastern situation, 328–330; non-aggression pact, question of, 492; oil monopoly in Japan, U. S. and British views and representations, 883–884, 922–923, 927–928, 931–932, 934–935, 936, 937–938; trade relations, 328, 984
Naval strength, Australian views concerning, 363
Soviet Union, relations with, 103, 108–110, 260
U. S. Army forces in China, question of withdrawal, 700–702
U. S. Navy: Alleged killing of Chinese citizen by American naval enlisted men, U. S. denial of responsibility for, 702–711; alleged smuggling of narcotics on American naval vessels in China, 739, 741–742

Vanity Fair magazine, 863–867, 868

War, possibility of: China–Japan, 400–401, 424; Japan–Soviet Union, 3–4, 5–6, 19, 91, 101, 106–107, 166, 272, 283, 309, 355–356, 377, 380, 383–384, 492; United States–Japan, 6, 492, 828, 829, 836–837, 853–854, 855–857
White, Wm. Allen, 459

Yoshida, Shigeru, visit to United States, 840–841, 853–854

U. S. GOVERNMENT PRINTING OFFICE: 1953