

● PSF: China, 1938

*file -  
Confidential*

In reply refer to Initials  
and No.

**NAVY DEPARTMENT**  
**OFFICE OF THE CHIEF OF NAVAL OPERATIONS**  
**WASHINGTON**

6 January 1938

My dear Mr. President:

The following personal letter from Admiral Yarnell of 22 December received this date is quoted as containing expressions of his personal opinions that may be of interest:

"Since my last letter of 28 November the situation has changed quite materially in many respects. The Japanese Army has captured Nanking and Wuhu and are now some distance on the north bank of the Yangtze. No definite statement has been made by them as to how much farther they will advance in this area. General Matsui has issued a proclamation stating that his troops need rest. Also, a large number of troops have been withdrawn for the South China expedition. At present the Japs are fighting around Hangchow with the idea of capturing that city, which they will do soon. I doubt whether the Japanese can remain stationary in this area, and they will probably be forced by circumstances to continue their advance later on to Hankow and probably north along the railway line toward Shantung.

"A landing is expected in South China soon, and large numbers of troops have been sent to that area. It is probable that they will land in Bias Bay and also in the vicinity of Macao. The idea is to capture Canton and cut off the supplies now coming into China via Hong Kong and the Canton-Hankow Railway. This campaign is naturally causing much uneasiness among the British and also the French. Admiral Little is now in Hong Kong with the bulk of the naval forces and Admiral le Bigot is leaving for Saigon very shortly.

"Another expedition against Shantung will undoubtedly take place in January. Since the destruction of the Tsingtao mills the Japanese see no further need of delay in entering this province. I think they want Shantung more than anything else in China, and this time they are going to take it for keeps. Han Fu-chu, Governor of Shantung, has been doing some fence straddling since the affair has began, but I think has now come out openly for China and the Japs see no need of wasting further effort on him.

"In North China a puppet government has been established, but the Chinese connected with it do not carry much weight. The Central Government issued a recent proclamation stating that all Chinese who accepted positions under such governments were traitors and would eventually be shot. This, of course, has a certain discouraging effect on the acceptance of such positions.

"With regard to Russia, I am inclined to believe that she will come into the war in the spring. To what extent the recent wholesale executions throughout Russia have effected the morale of the Army is a question. There is no doubt that the Russian Army can put up a much better fight than the Chinese Army, due to the fact that they have the necessary equipment in the way of artillery and aircraft. Also, their aviation should be as good if not better than the Japanese. It is quite well established that the Japanese have sent their best troops to Manchuria in expectation of a war in this area. The bulk of the troops in this area are reserves, which probably accounts for much of the looting, burning, and raping that has been going on toward the Chinese.

"The Japanese policy in China was stated by high Japanese officials to one of our officers to be, first: the destruction of Chinese military forces and all Chinese industrial establishments; second, annihilate British influence and prestige through planned incidents; third, take over all Chinese institutions such as the customs, salt gabelle, and anything else that will insure some quick returns to Japan.

"There is no doubt that these are really the policies they are following out. They are systematically looting and burning all Chinese mills and factories in occupied areas. In Nantao, the Chinese suburb south of the French Concession, they have stripped and burned over 70 Chinese mills and factories since occupation. This accounts for the continuous fires that have been going on in that area and which their spokesman said were due to Chinese incendiaries. In view of this, we can hardly blame the Chinese for burning the Japanese mills in Tsingtao.

"All of their actions since the present affair began toward the British indicate that they intend to drive them out. While this policy is not so apparent towards Americans, they are undoubtedly just as anxious to get us out as they are the British.

"The Italians are openly and avowedly in support of Japan in her present campaign in hopes of getting some droppings from the table. They want concessions and special trade agreements and are bootlicking the Japs at every turn in the hope that they will get concessions later on.

"One phase of this war which I had not expected of the Japanese is their ruthless cruelty toward the Chinese. Killing of non-combatants is an ordinary occurrence and the Chinese populace are so terrified that up to the present they refuse to return to their homes in any of the occupied territory. The number of dead in this war due to wholesale shooting, sickness, and starvation will run into the many millions before it is over. As an example of what is a common occurrence, I am enclosing a copy of a report of one incident which came to our attention.

"A phase of Japanese mentality which has been quite apparent during the PANAY incident is their utter lack of any sense of truth or honesty in the statements that they make. They will make any statement which they think will fit the situation, and when it is proved to be a lie will say "So sorry, mistake," and make another statement which is just as bad as the first. When a major-general resorts to such tactics it is not too much to believe that the high officials in Tokyo will do the same.

"The younger officer element in the Army have asserted themselves very forcibly in two recent occasions. The first one was in the case of the march of the Japanese Army through the International Settlement. This was forced upon General Matsui through his staff and against his wishes. The second striking case is that of Colonel Hashimoto, at Wuhu, who fired upon the British ships and told Admiral Holt that he had orders to fire on everything in the river. Colonel Hashimoto has a checkered career, and is one of the numerous trouble makers in the Japanese Army.

"The Chinese Government as it is now constituted intend to continue the war as long as it is possible. How much longer this will be is a question, but China is a huge country and can cause Japan a great deal of difficulty yet before the latter can say that the war is over. China has nothing to gain now by asking for peace. Peace would mean that the yoke of Japan would be firmly secured on Chinese shoulders. Japan did not realize at the outset of this war the extent to which there had been a growth of nationalistic feeling in China. This is far more widespread than even many of the old China hands understood. There is today throughout China a universal and deep-seated hatred of the Japanese which is not going to be eliminated for a long time.

"With reference to our own policy, it is my firm conviction that we should stick with England and France in all dealings in the Far East. It is inconceivable to me that we as a nation

are going to give up our rights of trading or living in China and confine our activities to our own continental limits. As for pulling chestnuts out of the fire, England stands to pull just as many out for us as we do for her. If these three countries stand together they can dominate the situation in the Far East. If they do not, they will be defeated singly and in detail."

Most respectfully,

*William D. Leahy*

The President,  
The White House.

COPY

COMPANY "E", SECOND BATTALION  
FOURTH MARINES, SECOND MARINE BRIGADE  
SHANGHAI, CHINA.

6 December, 1937.

MEMORANDUM FOR: Major Edson

About 1130, 2 December 1937, Merl L. Pryor, PhM3/c USN rendered first aid treatment to a Chinese coolie, name unknown, who had been wounded by a Japanese soldier. The coolie, an employee of the Standard Oil Company, was attacked across the river from the Shanghai Power Plant while supposedly working on a Standard Oil Company barge. The coolie had received a butt stroke to the left jaw and the left side of the face, causing a laceration about two inches long on the jaw and minor abrasions on the left side of the face. He had received what appeared to be a bayonet wound on the left side of the head, causing a small hole, causing possible fractured skull or concussion of the brain. He had been bayoneted in the left forearm, the bayonet rupturing the brachial artery and passing through the arm. He was unconscious and suffering from loss of blood, shock and exposure in addition to his other wounds. The corpsman applied compresses to the head wounds and arm, and stitched the lacerated jaw with silk ligature. No narcotics were administered. The man was taken to the hospital by a Shanghai Fire Brigade ambulance.

My knowledge of how the incident actually occurred is hearsay, but after questioning several people who witnessed it, I learned how it happened. The Japanese attacked the coolie and bayoneted him, inflicting the above-described wounds, and then knocked him in the river. A Japanese launch then passed the coolie and two rifle shots were fired at him, both misses. One of the Shanghai Power Company boats went out and hauled the man aboard, and brought him to the Power Plant, and Mr. W.W. Jourdin requested the corpsman administer first aid.

/s/ J.C. McHaney,  
Second Lieutenant, U.S. Marine Corps.

China  
(-)

January 17, 1938

Dear General Chiang:-

I am glad to have Your Excellency's letter of December 24, 1937, which was delivered to me personally by His Excellency the Chinese Ambassador here on December 31st.

In this letter you have been so good as to give me your appraisal of various features of the very unfortunate situation in the Far East and your views in relation to the problem of world peace.

Needless to say, I have been giving much attention to the situation and the problem to which you refer. The tragic conflict in China is of concern not only to the two countries most directly involved but to the whole world. Both the people and the Government of the United States view with anxious solicitude and profound regret the destruction which is being wrought. The cause of peace is one which we have very much at heart. We are giving constant study and thought to the problem of ways and means which may contribute most effectively toward promoting peace and facilitating international cooperation. Our efforts toward these ends will not be relaxed. It is our earnest hope that out of the present conflict in the Far East, and in place of it, there will come a settlement which, by virtue of reasonable provisions adequately considerate of the rights,

legitimate interests and national integrity of all  
concerned, will provide a basis for amicable relation-  
ships and an enduring peace.

Very sincerely yours,

His Excellency  
General Chiang Kai-Shek,  
Chairman, National Defense Council,  
Nankow, China.

*File  
personal +  
confidential  
China*

DEPARTMENT OF STATE  
WASHINGTON

January 29, 1938

My dear Mr. President:

I send you herewith for your information copies of an aide-mémoire given today to the British Embassy and a record of an oral statement made by Mr. Hornbeck in connection with the communication of the aide-mémoire. You will note that Admiral Leahy and General Embick have been informed, with written record, in regard to these matters.

Faithfully yours,

*Cordell Hull*

Enclosures:

Copy of aide-mémoire to  
British Embassy, dated  
January 29, 1938;

Copy of oral statement,  
dated January 29, 1938.

The President,

The White House.

COPY

AIDE-MÉMOIRE

Acknowledgment is made of receipt of the British Embassy's aide-mémoire of January 26 on the subject of withdrawal of establishments in north China.

The Government of the United States would welcome exposition of the British Government's references to "a general settlement."

In the interval, the Department requests that the British Ambassador inform the British Government that the Government of the United States is making plans to withdraw its present armed force at Tientsin, two battalions of the 15th Regiment U.S.A., on or about March 4, and simultaneously to send from Peiping to Tientsin, to be stationed temporarily at Tientsin, two companies from the marine guard which this Government now has stationed at Peiping, leaving at Peiping two companies of that guard.

Department of State,

Washington, January 29, 1938.

[1-29-32]

~~STRICTLY CONFIDENTIAL~~

The Government of the United States is making plans to withdraw its present armed force at Tientsin, two battalions of the 15th Regiment U.S.A., on or about March 4, and simultaneously to send from Peiping to Tientsin, to be stationed temporarily at Tientsin, two companies from the marine guard which this Government now has stationed at Peiping, leaving at Peiping two companies of that guard.

(NOTE: The above is an excerpt from an aide-mémoire handed today to the British Embassy in reply to an aide-mémoire from the British Embassy of date January 26.

Copies of the above have been given to Admiral Leahy, Chief of Naval Operations, and to General Embick, Deputy Chief of Staff.)

January 29, 1932.

COPY

(NOTE: The statement hereunder was made orally to Mr. Mallet, Counselor of the British Embassy, by Mr. Hornbeck, at the time of handing to Mr. Mallet the Department's aide-mémoire of today's date on the subject of changes to be made in the disposal of American armed forces at Peiping and at Tientsin.

Copies have been given to Admiral Leahy, Chief of Naval Operations, and to General Embick, Deputy Chief of Staff.)

~~CONFIDENTIAL~~

The making of arrangements for these changes necessarily involves issuance of orders and beginning of execution of orders well in advance of the date on which withdrawals and transfers are to become effective. In order to give the British Government time to consider what changes, if any, it may desire to make, effort will be made by the American Government to avoid, for a period of at least one week, publicity with regard to the changes which it is preparing to make. We cannot undertake, however, absolutely to guarantee that this effort will be successful.

January 29, 1938.

COPY

(NOTE: The statement hereunder was made orally to Mr. Mallet, Counselor of the British Embassy, by Mr. Hornbeck, at the time of handing to Mr. Mallet the Department's aide-mémoire of today's date on the subject of changes to be made in the disposal of American armed forces at Peiping and at Tientsin.

Copies have been given to Admiral Leahy, Chief of Naval Operations, and to General Embick, Deputy Chief of Staff.)

~~CONFIDENTIAL~~

The making of arrangements for these changes necessarily involves issuance of orders and beginning of execution of orders well in advance of the date on which withdrawals and transfers are to become effective. In order to give the British Government time to consider what changes, if any, it may desire to make, effort will be made by the American Government to avoid, for a period of at least one week, publicity with regard to the changes which it is preparing to make. We cannot undertake, however, absolutely to guarantee that this effort will be successful.

January 29, 1938.

THE WHITE HOUSE  
WASHINGTON

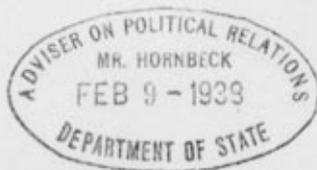
CONFIDENTIAL

February 8, 1938.

MEMORANDUM FOR  
THE SECRETARY OF STATE

Does this require a  
reply?

F. D. R.



**Department of State**

BUREAU  
DIVISION

**FE**

ENCLOSURE

TO

Letter drafted

ADDRESSED TO

**The President.**

*file  
confidential*

*china*



DEPARTMENT OF STATE  
WASHINGTON

February 11, 1938

My dear Mr. President:

In reply to the question raised in your memorandum of February 8, it seems to me that the letter which General Chiang Kai-shek addressed to you under date January 30 and which was delivered to you by the Chinese Ambassador on February 7 does not require a reply. I would suggest that you authorize the Department to write to the Chinese Ambassador here, making acknowledgment on your behalf of the receipt by you of the letter, and asking the Ambassador to inform General Chiang Kai-shek.

I return herewith your memorandum of February 8 and General Chiang Kai-shek's letter of January 30.

Faithfully yours,

Enclosures:  
Memorandum of  
February 8;  
Letter from  
General Chiang Kai-shek.

The President,  
The White House.

**CHINESE EMBASSY  
WASHINGTON**

Hankow, January 30, 1938.

Dear President Roosevelt:

I was greatly pleased to receive on January 24 through His Excellency the American Ambassador here a telegraphic copy of Your Excellency's letter of January 11<sup>[17?]</sup> in reply to my message of December 24, 1937.

I have been deeply moved by the warm tone in which you have responded to my appeal. Your earnest hope for a settlement of the present conflict with such reasonable provisions as you have indicated coincides with the very object of our sanguinary struggle against Japan's aggression and vandalism. We are not only defending our own rights and our own national integrity, but also striving for the preservation of the rights and interests of all powers

The President  
The White House  
Washington, D. C.

powers concerned. In a settlement you have visualized, we will show due regard even for Japan's rights and legitimate interests in China.

I am happy to learn that you are giving constant study and thought to the problem of the ways and means which may contribute most effectively toward promoting peace and facilitating international cooperation. The United States has always played a leading role in the promotion of international peace and order in general and justice and harmony in the Far East in particular. We recall with gratification the historical instances in which the United States endeavored to meet the disturbing conditions in this part of the world with timely and helpful intervention. At the end of the last century when China was going through the most trying period of her diplomatic relations, it was the American Government which initiated (and has ever since upheld) the principle of equal opportunity for the commerce and industry of all nations. It was again through the effort of the President of the United States of America as mediator that a Far Eastern

Eastern conflict in the beginning of this century was brought to an end. That the Washington Conference at which the Pacific questions were discussed and settled owed its origin and success to the United States of America is a fact which is still fresh in our memory.

Your great country has not only significantly contributed toward the general cause of peace and concord in the Far East, but has from time to time given exemplary assistance of one kind or another to the Government and the people of China. The United States was the first country which remitted to China the American portion of the indemnity of 1901. The American universities and colleges have imparted useful knowledge to countless Chinese youth who, imbued with American ideals, have returned to render valuable service in the development of this country. The American generous public has given us inestimable aid and relief in time of dire need. American financial help such as the Cotton and Wheat Loan has contributed in no small measure to China's success in carrying out her plan of national rehabilitation and reconstruction.

The American

The American Government was the first to conclude with the Chinese Government a treaty restoring to China the right to tariff autonomy. All these and other instances testify to the traditional friendship which exists between the United States and China.

It is the acknowledged leadership of the American Government in the common task for seeking international peace and security that has led all other powers to look to the United States for co-operation in dealing with the present catastrophe in the Far East. It is on the strength of the unexcelled Sino-American friendship that China naturally looks to the United States for assistance during our momentous struggle for national existence. Permit me, Mr. President, to appeal to you once more to do everything possible to help hasten the end of Japan's aggression and the realization of the ideal for which both China and the United States of America firmly stand. It is our urgent wish that the United States will enable us to continue our resistance. I leave it to Your Excellency to decide what further

measures

-5-

measures may be adopted by the United States to bring about the final settlement you have in mind. I am as confident as ever that our common cause for peace and justice for the sanctity of treaties and for orderly and amicable relationship among nations is destined to win.

Very sincerely yours,

Chiang Kai-shek

*"file  
Confidential"*

In reply refer to Initials  
and No.

NAVY DEPARTMENT  
OFFICE OF THE CHIEF OF NAVAL OPERATIONS  
WASHINGTON

19 February 1938

MEMORANDUM FOR THE PRESIDENT

The enclosed copy of a letter received by Rear Admiral J.O. Richardson from Captain Riley F. McConnell, Chief of Staff, Commander-in-Chief, Asiatic Fleet, is forwarded as containing expressions of his personal opinions on the Oriental situation that may be of interest.

*William Leahy -*

COPY

UNITED STATES ASIATIC FLEET  
U.S.S. AUGUSTA (Flagship)

Manila, P.I.  
27 January, 1938.

My dear Admiral:

I recently came down here from Shanghai. While the events that took place there are still fresh in my mind I will endeavor to give you a few of my impressions.

The situation growing out of the Manchurian incident of 1932 has made the Nine-Power Treaty a dead letter. So long as Manchukuo remains under Japanese control no action can be taken under the provisions of this Treaty. Some observers have been optimistic enough to believe that the present Sino-Japanese conflict could be settled on the basis of recognizing Japan's conquest of Manchukuo and her agreement to withdraw her military forces from South of the Great Wall. It would be very difficult to predict China's reaction to such a proposal. The corner stone of Chinese policy, as enunciated by the Generalissimo, is that she will never agree to the alienation of any Chinese territory. The student class and in fact all Chinese are solidly behind this policy.

Japan could have had the friendship and cooperation of the Chinese people for the asking following the 1927 incident. At that time China was badly in need of advice and assistance. Japan was her natural ally. Among the Chinese people there was a very definite anti-foreign feeling, aimed particularly at the white races. Had Japan extended the hand of friendship on the basis of a policy of "Asia for the Asiatics", China would have cooperated one hundred percent. A monopoly of trade in China would have been theirs for the asking. Unfortunately, commercial domination by normal methods will not satisfy Japanese ambition; the last thing they want is a strong China. What they really want is political domination with all that that implies in the Oriental mind. Even now military leaders claim that their only objective in making war on China is to make the Chinese like them -- that they are only interested in cultivating friendly relations between China and Japan! General Matsui recently stated that his hobby in life is now and has always been to promote friendly relations between China and Japan. Such apparent contradictions of policy and actions render it quite impossible for an Occidental to understand the mental processes of an Oriental. This simple but significant fact must be kept in mind when trying to analyze stated policies or construing national acts of the Japanese.

The relations existing between the Army and Navy and the Civil branches of the Government in Japan present an extraordinary situation. The Army is in some respects a very highly disciplined organization. According to their construction of the term, the militarists are extremely loyal to the Emperor. However, every man seems to feel that he is the best judge of what should be done to promote the interests of the Empire. Troops mutiny, murder their officers and even cabinet officers, and are able often times to escape punishment on the grounds that their actions were inspired by patriotic motives. Colonel Hashimoto, in command of the troops around Wuhu, tells an Admiral in the British Navy that his orders are to fire on any ship that moves in the Yangtze. As an earnest of his sincerity he keeps shore batteries trained on a British gunboat at a few hundred yards for a whole day, threatening to fire if the gunboat makes any move to get underway. His seniors deny any knowledge of any such order and insist that he has acted entirely on his own responsibility, although they take no disciplinary action.

The incident which occurred during the march of Japanese troops through the International Settlement illustrates the conditions which exist in the Japanese Army. A Korean or Chinese threw a bomb into the parade and wounded a few men. A group of junior Army officers on the scene took charge of the situation, presented demands to the Commissioner of Police and took action which later turned out to be very embarrassing to the Japanese Government. An officer from General Matsui's staff was sent to this group to tell them to withdraw from the International Settlement, that the matter had been satisfactorily settled. They refused to obey General Matsui's orders. A delegation headed by a Major General had to be sent to the scene in order to get them to withdraw. A very prominent Japanese statesman states that thoughtful people in Japan are very much worried over the outcome of the present conflict in China, that the Army is out of hand and lacks strong top leadership, that "The Colonels are running the show."

The Civil officials of the Japanese Government seem to be without any authority insofar as either the Army or Navy is concerned. In fact, the military services seem to resent any suggestion that comes to them through Civil branches. We have an extraordinary situation. The Minister of War has no knowledge of the actions of the military commanders in the field; the military commanders in the field have no control over their subordinates, and every man is practically a law unto himself. In one breath the high command will insist that it has complete control of discipline and then acknowledge its inability to control the younger element. Press representatives are denied the privilege of getting any where near the front lines or near the scene of any actual fighting, lest they paint a too vivid picture of the murder, rape and arson that goes on in the wake of the Japanese Army.

A similar but less aggravated situation exists in the Japanese Navy.

There is admittedly great professional jealousy between the two services. The Army individually feels superior to the Navy. Each vies with the other for influence and for appropriations. Their policies are in conflict. The Army wishes to expand on the continent of Asia as the first step in their great dream of Empire, knowing such expansion naturally would be considered an Army achievement. The Navy wishes to expand South towards Borneo and the Dutch East Indies, for similar reasons of their own. Their relations have often been very strained. As an example, during the siege of Shanghai, the Navy drove a salient into the Chinese army lines in the vicinity of the Landing Party barracks in Hongkew but found they were unable to hold the conquered territory without reenforcements. The Army refused to send them reenforcements although the troops were available. As a result, the Navy lost a great many men and a bitter feeling resulted.

There undoubtedly is a great element of weakness in the situation that exists in the Japanese military forces today. The War Office has no idea what the Army is doing in the field; the immediate and ultimate objectives are determined by the command in the field. The Minister of the Navy has no definite control over what the Navy is doing; the Foreign Office has no information as to what either military service is doing and as a result is constantly embarrassed by the actions of both; the Army is not informed what the Navy is doing and the Navy is almost deliberately kept from knowing what the Army is doing except insofar as combined operations make it absolutely necessary. To an Occidental mind with a grasp of the fundamentals of combined action in support of national policy this all represents a chaotic condition. Some informed observers feel that an open break between the Army and the Navy is not beyond the realm of possibility.

Another example of the struggle that is going on between the two services is the situation in Tsingtao. The Army insist that the Navy stop at the water's edge and not put foot on land. The Navy insists that they will control Tsingtao as they have in the past and as they do in Sector "A" of the International Settlement of Shanghai where the Naval Landing Party is in control. The Imperial War Council was created in an effort to eliminate this friction between the Army and Navy and to secure more intelligent cooperation.

Japanese finances are in a precarious condition, as admitted by high officials in public utterances. Of course, the thesis that money is absolutely necessary to wage war was exploded during the World War by Germany. So long as a nation can produce within its boundaries what is necessary to carry on war, money is not necessary. However, Japan is not in this situation. It is necessary for her to buy most of the raw materials and much of the equipment she uses from foreign

countries. The two nations that might obviously be glad to lend her money have none to lend. It seems quite certain that other foreign powers will not give her unlimited credit and the time will soon come when she will not be able to provide essential war materials. The Army and the Navy refuse to take cognizance of this problem. They feel that paying or providing for their venture is a problem for the Civil Government. Bankers in the Orient say that if the Yen were allowed to seek its proper level it would be worth only a few cents.

The current militaristic psychology of the Japanese people is not a temporary aberration, but a revered tradition of the people. The fighting man has always represented the top of the social scale. Japanese men are brought up in the tradition of the sword, not only figuratively but literally. The average man is fed on the fetish that the Japanese Army is invincible and that the Japanese people are destined to rule the world. A natural result of this general attitude in the current hostilities is that their actions are becoming intolerable. It is the rapidly crystallizing opinion of all foreigners here who have endured countless examples of this attitude that they will never be fit to live with in the family of nations unless and until they are defeated in war so thoroughly that they will be unable to salvage a diplomatic victory. A Chinese historian writing a thousand years ago described the Japanese people as "Predatory Dwarfs". Some people feel that this description is still an accurate one. Events of recent years indicate clearly that they have no respect for the rights of other people if such rights conflict with their imperialistic ambitions. They respect no treaty, no agreement, that restricts this dangerous urge. Their policy is the complete political domination of the Western Pacific and nothing short of that goal will satisfy them. The separate branches of the Government may take different roads without close cooperation, but the ultimate object is the same, whether it be the Army on the mainland, the Navy to the South, or commercial penetration in all directions.

As far as their prospects of success in the current case are concerned the occupation of Chinese territory is proving, and will continue to prove, very expensive. The Chinese population is openly, bitterly and actively hostile. All occupied areas must be strongly garrisoned. Despite the rigid censorship on news coming out of Manchukuo it is definitely known that there have been serious cases of mutiny and that Japanese cannot trust troops recruited from this area. The same situation exists in Korea. The entire Chinese population is united on one thing, and that is hatred of the Japanese. The rapidly increasing solidarity of the Chinese people around this single principle is a phenomenon which competent observers believe will not be weakened by complete defeat of the Chinese Armies.

It is difficult to see how Japan expects to get a return on the huge investment she is making in the conquest of China. Available raw materials are very limited. Food has never been plentiful. Years will be required to develop and obtain these on any profitable basis. Except in the capacity of middle-men receiving protection and subsidies from their government, the Japanese cannot hope to compete with Chinese in any industrial or agricultural activity. Furthermore, Japan lacks the necessary capital to support development projects in China on a

scale sufficiently large to ameliorate her own conditions. It is doubtful if she can find the capital elsewhere.

The passive resistance of 450,000,000 people will constitute a serious problem for the Japanese even if they gain complete military and political control. There is a chance that Japan may bleed to death economically, or starve to death militarily, in China. The Chinese are deliberately luring them further and further into China in the hope that this will happen. Many competent observers feel that Chinese strategy has a good chance to succeed. The enormous distances over poor transportation facilities, the negligible resources available in the conquered areas, and the passive resistance of the people, coupled with guerrilla warfare, present a tremendous problem.

Japan has in excess of one million troops on the mainland of Asia. Demobilization of the major portion of such a force will present a difficult and dangerous social and economic problem. Moreover, the military want to complete the conquest of East Asia while their war machine is geared for action and is enjoying the advantage of momentum. Their troops are flushed with victory. Apparently the war spirit has been fanned to a high pitch in the homeland. In spite of some opposition to the costs from business there is considerable enthusiasm in support of the Army. Official propaganda keeps this opposition well under control.

The general opinion is that the best Japanese troops are in Manchuria. Tremendous quantities of military supplies and equipment have been stored at strategic points there and every preparation has been made to wage war against Russia or to be prepared to meet it. The establishment of Russian air bases in the vicinity of Vladivostok constitute a very real and serious threat to Japan. The expansion of the Russian Navy in this area, particularly the great increase in the number of submarines, is very alarming. It is logical that Japan should take action before Russia can become fully consolidated in this area. It is quite certain that Japan will if possible insist upon controlling the maritime provinces and the northern half of Sakhalin in the near future. However, her hands are tied until the Chinese incident is liquidated. Hence their desire to have done with the Chinese problem as soon as possible. The consensus of informed opinion indicates that the chances are about one in three that Japan will be at war with Russia by the Summer of 1938. Japan's war machine will have had its test and they consider it equal to the task.

The question of peace between China and Japan is being constantly discussed. Many feel that the Generalissimo should sue for peace now, that the terms will be easier now than later, and

that there is nothing to be gained by prolonging the war. However, the only peace China can get today is one based on an unconditional surrender, the complete, though masked, sacrifice of her sovereignty. Japan would certainly insist upon the elimination of all personnel connected with the present Central Government of China. This would mean the removal of the Generalissimo and the Kuomintang from any position of influence. For purely personal reasons, therefore, he could not accept peace at this time. During the past ten years China has become united to a degree never before known and the current hostilities have greatly accelerated this movement. Chinese people, from the coolie in the street to the wealthy Taipan, want to see their country ruled and run by Chinese. They all have an abiding faith that in the end, by some means, they will win in this conflict. No amount of suffering or loss of territory seems to shake this confidence. No government in China could possibly make peace today and remain in power. Note the number of prominent Chinese who are being assassinated throughout China for pro-Japanese activity and for participation in puppet governments created by the Japanese. So long as the will to war exists among the Chinese people and so long as the Government can provide any reasonable means of military resistance, the Japanese will have a very real problem in controlling the occupied areas of China.

The position of Chiang Kai-Chek in Chinese affairs cannot be overestimated. The Japanese fully appreciate his tremendous power over the people. There is no personality in China today who can take the place of the Generalissimo. There is no other man who can command the loyalty and respect of the Chinese of all sections. Madam Chiang Kai-Chek is an extraordinary person who has the greatest influence in Chinese politics. Some feel that she is even more influential than her husband. The combination is a very strong one and could probably not be replaced for a long time. They are essential to the establishment of any strong centralized government in China at this time. Incidentally, they both have a genuine friendship for the United States.

The Chinese people have never had imperialistic ambitions. Under Chinese leadership they have never threatened the peace of the world. A strong Government in China would make for world stabilization and world peace. It is very much to the interests of the United States to foster and support such a Government, not only for those sound moral-political reasons, but for the really tremendous trade possibilities which such supported stabilization would bring.

Current events, climaxing acts of the last six years, make it obvious that the Japanese aim is to drive the white man from the Orient. Foreign business, as well as military observers, recognize this object at last. Foreigners will be able to reside and trade in China only under such conditions as Japan may dictate. In furthering this policy they deliberately infringe the rights of third powers, stirring up justifiable resentment and ill-will. This anti-Japanese feeling is gaining momentum throughout the world and has become a very important factor in determining future Japanese action. The recent attitudes of laboring elements in England and the United States are significant. The situation has become clear-out in spite of the promises of the Japanese government. The recent terms handed to the Chinese Ambassador in Tokyo are the final proofs. They are rapidly achieving a "fait accompli" as was done in Ethiopia. An army in possession cannot be voted out of conquered territory. The white race must either fight to defend its equal rights in China or get out of the Orient.

An interesting question in most people's minds at this time is the relative rating of the Japanese armed forces with those of other first class powers. This is a difficult question to answer, because in the current hostilities they have not met forces in any way comparable to those of a modern power. Although the best Chinese troops put up a dogged resistance, they were not supported by aircraft or artillery to any appreciable extent, and had practically no modern transport. The success of the Japanese troops, therefore, who had such support to a very marked degree, is not an accurate criterion of their real caliber.

However, the following observations can be made as reasonably accurate:

(A) PERSONNEL:

- (1) Their individual courage in combat is unquestioned.
- (2) They withstand physical hardship in the field well and cheerfully, even on their poor ration.
- (3) They are indefatigable workers, constantly training and drilling, and are willing to do labor battalion work.
- (4) The troops are capable of fast mobility on foot over considerable periods.
- (5) They show frequent definite instances of stupidity, but such examples may in many cases be traced to the Oriental manner of doing things.
- (6) A satisfactory state of internal discipline exists.

(B) OPERATIONS:

- (1) They were thoroughly prepared for expeditionary duty.
- (2) Their supplies of ammunition, equipment and means of transport were adequate.
- (3) Their system of improvised supply in the Shanghai-Nanking area was the outstanding feature of those operations.
- (4) The unrestricted night operations in the Yangtze of their light craft and transport without casualties of any extent showed the boldness and skill of their seamanship.
- (5) The extensive aerial operations, with few casualties due to their own mistakes, disproves conclusively the old theory that they cannot fly. A heavy proportion of their pilots are enlisted or warrant ratings.
- (6) The military operations in the Shanghai-Nanking area proved that they have abandoned their former doctrine of needless sacrifice of men when an initial advantage or objective can be gained by artillery or aircraft activities.
- (7) The great activity in ocean and river transport indicated the great value of her large reserve of seamen.
- (8) The troops are well trained to operate and fight at night.
- (9) Their intelligence system is extensive and painstaking in thoroughness, though obviously cumbersome and in many cases pointless.
- (10) From observations of gunfire from ships in the river at shore targets it would appear that their theory of fire-control is based in volume of fire rather than accuracy.
- (11) Evidence would indicate high velocity in secondary and minor caliber guns.

Faithfully and sincerely yours,

Riley McConnell

Rear Admiral J. O. Richardson, USN,  
Office of Chief of Naval Operations,  
Navy Department,  
Washington, D. C.

C O P Y

UNITED STATES ASIATIC FLEET  
U.S.S. AUGUSTA (Flagship)

MEMORANDUM

A few straws showing which way the wind blows.

In an interview with the Magazine "Kaizo" on 31 December, General Matsui stated, "\* \* \* I have received no instructions from my Government and all that happens in Shanghai is decided solely on my responsibility. In principle I do not recognize neutrality of foreign settlements, therefore I intend to exercise China's sovereign rights over concessions and if we act with determination foreigners will respect our authority. It is necessary from time to time to demonstrate our strength and I will take advantage of a favorable opportunity in the future to do something on this line".

Official Japanese reports state, "Japanese naval and military aircraft have made 13,000 flights since 13 August, 600 at Shanghai, 1200 at Nanking, 500 at Canton, 900 on Canton-Hankow and Canton-Kowloon Railways, and 660 on Tsinpu and Lunghai Railways, remainder on Hupeh, Hunan, Honan and Kwangeh. Japan has lost no warships and only 65 planes while China has lost 27 warships and 659 planes". If Ben Franklin was correct when he said "Every knack is by practice capable of improvement", then the Japanese skill in handling aircraft must be greatly improved as a result of this war.

As a basis of discussion the following minimum peace terms were handed to the Chinese Ambassador, Hsu Shih Ying, before his departure from Japan on 20 January: (1) China's adherence to anticomintern pact; (2) Economic cooperation with Japan and agreement to give preference to Japanese in employing technical experts and advisors; (3) Withdrawal of Japanese troops except those in Peiping, Tientsin, Chahar and Suiyuan, to be effected after China signs anticomintern agreement; (4) Chinese Mayors for Shanghai, Tsingtao, Tientsin and Peiping to be nominated by Japanese.

REGULATIONS PERTAINING TO RESIDENTS  
DESIRING TO RETURN TO THEIR HOMES IN HONGKOW.

Foreigners who want to employ Foreign and/or Chinese house boys and maids are requested to submit through the Japanese Police Force of the S.M.C. to the Japanese Consulate General an application describing the employees nationality, address, name, profession, as classification of occupation with two copies of employees photographs attached thereto. Control of lights shall be strictly observed. For this purpose all the residents are requested to have necessary devices which will have to undergo inspection by the S.M.C. Japanese Police. Those who want to employ Chinese servants are requested to previously submit to the Japanese Consulate General an application together with two copies of photographs of each servant and make such employees assemble at the Garden Bridge by 10 a.m. on the appointed day. These employees will be sent to the Isolation Hospital where they will be detained over-night for the purpose of undergoing medical examination and examination excrete, preventive injection against cholera and vaccination.

Employees on the following morning are requested to call at the Japanese Consulate in Order to receive a note of authentication and then go to the Garrison Headquarters at the Japanese Club in order to receive a pass.

Curfew - 10 p.m. to 5 a.m.

The Market will be opened to all residents between the hours of 5 a.m. to 9 a.m.

Foreigners returning to districts North of the Creek are especially requested to respect the sentry on point duty at the Garden Bridge and at street corners by given a gentle bow and wishing him a "GOOD MORNING".

Foreigners must realize that the Japanese soldiers doing such duty represent the EMPEROR OF JAPAN.

Special passes will be given to those having Japanese friends and it is hoped that everyone wishing to live in Hongkew will make friends with the Japanese. Japanese ladies, 150 from the Tokio High School, well versed in English are now in Shanghai for the sole purpose of being better acquainted with Foreigners. Further details regarding interviews etc., with those ladies will be furnished at the Japanese Club in the office of the Secretary to the Commander of the Naval Fleet in Shanghai.

Foodstuffs will be sold at 23½% discount. Sakae will be free of charge to those who drink to the health of the Emperor and a quantity not exceeding 2 litres can be taken away each day.

In the event of Foreigners wishing to employ Japanese maid servants they are requested to make application to the Garrison Commander at the Japanese Club as soon as possible as there are a limited number of Nei Sans. Bachelors need not apply. All single men will be supplied with mates as soon as facts are known. Married men applying for Nei Sans will have to obtain the consent of their wives. Foreigners who employ Nei Sans will be entitled to one bath a week in any of the undermentioned Bath Houses in Hongkew, free of Charge. Foreign ladies can apply for Japanese male masseurs. Bath Houses are situated at:-

1. 275 Range Road
2. 393 Boone Road.
3. 120-A Woosung Road.

By Order of the Garrison Commander of the Japanese  
Expeditionary force in China.

The following is quoted from a personal letter written by one of our reliable officers now stationed in China:

"I was surprised to find that the Japanese are apparently a nation of drunkards, or at least their military and naval personnel are such. Since the active hostilities have passed out of the area of Shanghai their liberty parties and garrison troops have indulged themselves in unbridled drunkenness and, in that state, have committed some barbaric outrages on the Chinese people. In my opinion, this is the most dangerous source of potential trouble in the future, and for that very reason I would urgently recommend every possible pressure be exerted to dissuade the Japanese from introducing military or naval personnel into the limits of the International Settlement in the peace and security of which we are interested. The Japanese, even when sober, are so intoxicated with the result of their victories that when drunk they become perfectly insane in their overbearing conduct."

W.H.L.

*file  
personal*

*China*

DEPARTMENT OF STATE  
WASHINGTON

March 4, 1938.

My dear Mr. President:

With reference to our conversation of February 25 in which you expressed the desire that the Department obtain information as to the nature and amount of supplies of arms and ammunition which were at present being received by the Chinese Government, confidential instructions have now been sent to our consular officers at Hong Kong, Rangoon, Saigon, and Yunnanfu to obtain the information desired and to submit continuing reports at least once every two weeks.

In view of the small staff which we now have at Hankow, the War Department was requested to undertake to obtain the desired information with regard to the amounts of arms and ammunition coming to China from Russian sources in the north, particularly over the roads converging at the city of Lanchow. Officers of the War Department have been instructed in this sense by the Secretary of War.

The President,

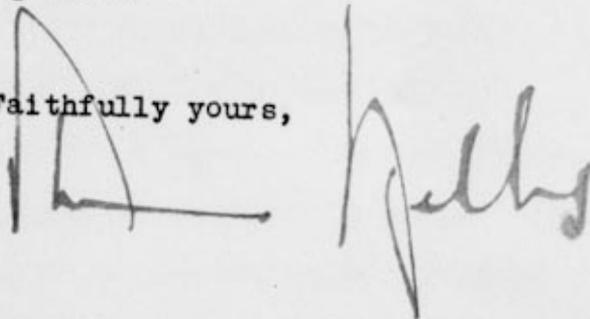
The White House.

As soon as the first reports come in I shall have a digest of them prepared and send it to you.

In accordance with your request I am returning herewith the confidential map you gave me and I enclose likewise in the belief that it will be of interest to you a map prepared by M.I.D. indicating the most recent information they have as to the roads over which arms and ammunition are entering China.

Believe me

Faithfully yours,

A handwritten signature in dark ink, appearing to read 'R. Kelly' or similar, written in a cursive style.

Enclosures:  
Two maps.

File Private Confidential China  
April 20, 1938.

STRICTLY CONFIDENTIAL.

CLC  
11-7-63

Subject: Volume of Military Supplies  
Entering China.

Military supplies from abroad enter China principally by three routes: (a) Lanchow; (b) French Indochina; and (c) Hong Kong.

Lanchow. (Kansu).

A radio report just received from an American military observer who made a special trip to Lanchow gives information as follows:

Shipments of military supplies from Russia passing through Lanchow are estimated to average less than 25 tons daily. The material consists of aircraft supplies, including gasoline, bombs of various sizes up to approximately 1,500 pounds, machine guns and ammunition for artillery and small arms. During December, 1937, 15 antiaircraft guns and a few searchlights were received. Six light tanks arrived this year but there have been no further shipments of artillery. A total of 300 airplanes of all types, which is believed to be the entire shipment expected, has already arrived at Lanchow. Trucks in use on this route have a capacity of three tons. They are guarded by armed Russians en route and by Chinese guards at halting points. From 120 to 150 truckloads of material are now arriving weekly. Strict

secrecy

secrecy on these shipments is being maintained and information is most difficult to secure.

It is estimated by officers of the War Department that the ammunition and aviation gasoline entering China by Lanchow is primarily for the use of the Russian equipment, such as airplanes, anti-aircraft guns and tanks shipped by the same route. The present flow of munitions is believed to be sufficient to maintain those weapons in action. If the tonnage capacity, as indicated above, of this route is utilized for general munitions, it is believed that the volume would be sufficient to supply the needs of only about three and a half divisions (45,000 to 55,000 men) engaged in military operations.

The American military observer who visited Lanchow has been directed by the War Department to forward more detailed information via air mail. This air mail report should reach Washington in approximately two weeks.

French Indochina.

Military supplies entering China via French Indochina are shipped by two routes: (a) by rail to the Kwangsi border (Lungchow) and from there by motor direct to central China or to a transshipment point on the Canton-Hankow Railway; and (b) by rail to Yunnanfu.

A radio report just received from an American military observer who made a special trip to Lungchow

(on

(on the Kwangsi side of the Kwangsi-Indochina border)  
gives information as follows:

Since February 7 an embargo has been established on shipments by rail of munitions from other than French sources. After March 1 the embargo also included French material. While the French Colonial Ministry is reported to have authorized munitions shipments, the local Governor General is reluctant to permit their passage for fear of Japanese reprisals. The embargo does not apply to articles which can be classed as commercial. Under this liberal interpretation, airplane engines, engine parts, gasoline, oil and many other articles may be shipped. A highway from Dongang, on the railway in French Indochina, to Kweilin, capital of Kwangsi, via Nanning, able to take five-ton loads, is now complete. A hard surfaced road connects Dongang with Haiphong. A water route is also open via Wuchow.

The American military observer who visited Lungchow has been directed by the War Department to forward more detailed information via air mail. This air mail report should reach Washington in approximately two weeks.

With regard to the statement that since February 7 an embargo has been established on shipments by rail through French Indochina, the American Embassy at Paris telegraphed

telegraphed on April 2 that according to the French Foreign Office there had been no change in French policy which is to approve applications for shipments ordered prior to last August and started before October. The Embassy reported further that there had been some evasion of the French control and that other shipments which originated in French Indochina were not strictly subject to the control. The Embassy stated that because of France's own military needs the French munitions supply to China had been considerably diminished.

With regard to Yunnanfu, the American Consul at that place reported under date January 29 that there had arrived at Yunnanfu a shipment of war materials consisting of 32 light tanks, 6 or 8 airplanes, and 1800 tons of explosives, mostly bombs. The Consul reported further that he understood that another shipment of 1500 tons was then at Haiphong awaiting transportation to Yunnanfu.

Hong Kong.

It has recently been learned that the Government of Hong Kong is forwarding fortnightly to London data in regard to war material passing through Hong Kong. The American Embassy at London has been asked by telegraph to request that the British Government supply it with these data fortnightly or monthly. No reply has as yet been received from the Embassy at London.

Under

Under date February 25 the American Consul General at Hong Kong reported that, based on first-hand observation, the traffic in war materials via Hong Kong appeared to be substantial and continuous. The Consul General forwarded a report by the Hong Kong correspondent of a Japanese newspaper giving a list of supplies reported to have reached China through Hong Kong between February 1 and February 15. The Consul General expressed the opinion that these figures were not greatly exaggerated. The figures are as follows:

- From America: 15 cases of machine guns for aeroplanes, 500 tons of gunpowder and other explosives.
- From Britain: 27 aeroplanes, 700 tons of gunpowder and other explosives, 250 tons of quasi-explosives, 26 tanks, 500 cases of sulphuric acid, 2 motor lorries, 15 anti-aircraft guns, 1,500 tons of bridge material, 100 tons of railway material, 200 tons of other war supplies.
- From Denmark: 6 cases of machine guns for aeroplanes, 2,000 tons of quasi-explosives.
- From Germany: 20 motor lorries, 200 tons of railway material, 100 tons of other war supplies.
- From Holland: 1,500 tons of quasi-explosives, 150 motor lorries, 100 tons of bridge material, 1,000 tons of railway material, 400 tons of bombs.
- From Italy: 5,000 tons of ammunition, 100 cases of sulphuric acid, 300 tons of other war supplies.

From Norway

From Norway: 25 cases of machine guns,  
1,000 cases of sulphuric acid, 115 motor lorries,  
500 tons of bridge material,  
50 tons of barbed wire.

As further indicative of the volume of traffic through Hong Kong of military supplies and related materials, there is enclosed a list of certain exports to China from Hong Kong for the period November 1937 to January 1938, inclusive, as supplied by Hong Kong port authorities.

Burma.

A further route which may become of importance in connection with the supply of arms and munitions to China is from Rangoon to Lashio, railhead in Burma, and thence by motor truck to Yunnan. A motor highway, approximately 550 kilometers in length, is now being built from the Burma border to Tali, a city in western Yunnan from which highways lead to central China and Szechwan via Yunnanfu and Kweichow. Recent reports from the Consulate at Rangoon indicate that some 200,000 coolies are working on this

road

Conclusion.

The information so far received is not sufficiently comprehensive to afford a basis for making estimates as

road and that strict orders have been issued for its completion by May. It is believed, however, that even if a road of some sort is completed by that time it will not be practicable for use by motor vehicles during the rainy season from June to November. It is also believed that the potential importance of this route has been exaggerated in the press, as the geographical difficulties in the way of construction and maintenance are enormous.

The non-completion of a motor road connecting Burma and Yunnanfu does not, of course preclude the possibility that small arms and ammunition may be brought in by pack animals over the route to be followed by the road or over the main caravan routes from Bhamo and Myitkyina. It would probably take in the neighborhood of sixty days to transport goods from Rangoon to central China over either of these routes.

#### Chinese Arsenals.

Chinese Government arsenals can manufacture limited quantities of small arms of all types, machine guns, trench mortars, light artillery, and ammunition for these weapons. Hand grenades and airplane bombs up to 300 pounds are also manufactured. China must of course import certain raw materials to complete the manufacture of these munitions.

#### Conclusion.

The information so far received is not sufficiently comprehensive to afford a basis for making an estimate as

to the volume of military supplies entering China from abroad. Upon receipt of the air mail reports from the American military observers who visited Lanchow and Lungchow and of an air mail report expected from the Consul at Rangoon, and if the British Government furnishes the information which has been requested of it in regard to the transit through Hong Kong of military supplies, there may be available data on the basis of which an estimate can be made.

Enclosure:  
List of exports.

HONG KONG EXPORTS TO CHINA  
NOVEMBER TO JANUARY INCLUSIVE

Telegraphic and telephone instruments .	HK\$	725,000.00
Electrical accessories.....		310,000.00
Electric wire and cable .....		700,000.00
Radio and wireless apparatus.....		150,000.00
Dynamite.....		45,000.00
Detonators and fuses.....		70,000.00
Motor car tires.....		1,300,000.00
Medicines.....		880,000.00
Firearms .....		800,000.00
Ammunition .....		600,000.00
Petrol .....	8,000,000	gallons
Lubricating oil .....	1,900,000	gallons
Kerosene .....	7,000,000	gallons
Diesel oil .....	15,000	tons
Fuel oil .....	10,000	tons
Cement .....	600,000	piculs
Iron and steel bars .....	120,000	piculs
Iron and steel sheets .....	50,000	piculs
Galvanized wire .....	40,000	piculs
Iron wire .....	60,000	piculs
Iron and steel scrap.....	50,000	piculs
Tin plate .....	72,000	piculs
Motor cars .....	90	units
Motor lorries .....	80	units
Motor lorry chassis .....	250	units
Motorcycles .....	150	units
Armored cars (small).....	45	units
Aeroplanes and parts .....	60	large cases
Thousands of tons R/R supplies		

*file private*

*PSF - China*



DEPARTMENT OF STATE  
WASHINGTON

May 5, 1938.

My dear Mr. President:

I am transmitting to you a copy of an air mail report dated April 15 received by the War Department from the military observer despatched to report the entry into China of war materials through certain points in French Indochina.

We are still awaiting a report with regard to the traffic through Lanchow.

Believe me

Faithfully yours,

Enclosure:  
Report from Military  
Attaché, Canton,  
April 15, 1938.

The President,  
The White House.

COPY

2657-H-439

648

Date- 10-20-67

Signature- *RHD*

American Embassy  
Office of the Military Attache  
Canton, China  
April 15, 1938.

Subject: Shipment of war materials into southwest China.

To: Assistant Chief of Staff, G-2  
War Department  
Washington

The following report is submitted in compliance with radio instructions of the War Department, March 9, 1938, and after performance of the travel directed thereby:

1. Itinerary. By steamer from Hong Kong via Hoihow, Hainan, and Pakhoi, Kwangtung, to Haiphong, French Indo-China; thence by rail to Hanoi and to Yunnanfu and return to Hanoi; by rail and bus to Langson and Lungchow; by bus and car to Nanning and Wuchow; by steamer on West River to Hong Kong.

2. French prohibition of transit of munitions. At Haiphong, thru the Chinese Central Government agents in charge of munitions shipments, I first learned that on February 7, 1938, the governor general at Hanoi, allegedly acting under instructions from Paris, had forbidden further shipment thru Indo-China of munitions from countries of origin other than France; and that further, during the first week of March, 1938, this prohibition had been extended to cover shipments of French origin.

The immediate effect of the first order was to block shipment of 1400 tons of Russian munitions, half the cargo of the SS "Lord Corcoran" which had been unloaded at Haiphong, the first half having already been shipped to Yunnanfu by French railroad. From the general officer representing the Chinese army in Hanoi and in charge of munitions shipments, I learned that only three days notice was given before the promulgation of the first order, that of course he had found it impossible to move 1400 tons in that short time, that the supplies were still on lighters or in godowns at Haiphong and that all subsequent efforts to obtain permission to ship had been to no avail. Even authority to ship to Hong Kong or Pakhoi had been refused, and the Chinese representative was at his wits' end, with storage and lighter charges for dangerous goods mounting daily and no prospect of relief. At one time he had been promised that he could ship these

munitions by junk out of Haiphong, and said he had a telegram from his embassy in Paris stating that the French government had authorized this move, but up to the time of my departure from Hanoi on April 2, the promise had not been kept.

The second order was not so disastrous since it involved no such large shipment, but two French Dewoitine planes, assembled in Hanoi, were caught there, the other four of a first shipment on an order for thirty, having been sent knocked down to Yunnan where French mechanics were assembling them. The Chinese had at the time I left some hope that the new Blum government would modify the prohibition.

3. Reasons for the French attitude. From many conversations with Chinese and French military and civil officials, and French and foreign civilians, I could discover no definite reason for the interdiction. The Chinese would have given much to know the answer. The French military simply indicated that "they had nothing to do with politics," in itself perhaps a significant statement. From the sources mentioned however, I gathered the following possible reasons:

a. Japanese threats (1) to bomb the French railroad in Yunnan province - vulnerable because of many tunnels and bridges; (2) to seize Hainan Island - strategic threat to Indo-China and especially to the new French base at Camranh, now said to be under construction.

b. Hesitancy and vacillation of the governor general, who appears to have no great reputation, and who, according to some sources, fears to take positive action in view of the present uncertainty and instability of the French cabinet.

c. It was even suggested in some not irresponsible quarters that a sum of money judiciously spent might alleviate the situation.

d. A French bluff to secure Chinese signature to the contract for railroad materials and equipment for the new Kwangsi railway. (Best information available, however, leads me to believe that it is the other way round, and that the Chinese have declined to sign the proposed contract unless the French prohibition is lifted.)

4. Scope and effect of the prohibition. The consequence of the French action is that no munitions are passing into China thru Tonkin. I saw no signs of any such shipments along the Yunnan railway, the railroad to Langson, or on the highways in Kwangsi, and all persons interrogated confirmed the fact that there is no transit of such goods. I was told, however, by one of the best informed Frenchmen in Indo-China, that the prohibition would not apply to such categories as motors, parts, gasoline and oil, cotton or yarn for uniforms, etc., or any supplies which, even though intended for military use, can be considered as commercial shipments.

5. Previous shipments thru Indo-China. a. To Yunnan: Previous shipments to Yunnan have been sent direct by railroad from Haiphong thru Hanoi to Yunnanfu. Thence the Chinese plan is to make use of a convoy of trucks (they have 85, most of which are Grahams) along the Yunnan - Kweiyang - Chungking road, or from Kweiyang to Changsha, although these roads are not of the best, especially as to bridges, and the haul is long and difficult. Because bridges were out on those routes, practically no shipments have gone thru recently from Yunnan, except one of airplane bombs.

Shipments to Yunnanfu include the following:  
(Sources: French and Chinese officials in Haiphong, Hanoi, and Yunnanfu - at the latter place in conjunction with Mr. Paul Meyer, American consul.)

Oct. 3, 1937, French origin: 50 tons of 75 mm trench mortars and ammunition for same.

Oct. 29, 1937, French origin: 150 tons consisting of four 75 mm mountain guns with ammunition; 10 tons of small arms ammunition.

Jan., 1938, Russian origin (SS Lord Corcoran shipment): 32 8-ton tanks; 6 airplanes - low-wing monoplanes, single-seat, single motor, 12 to 15 ft. wingspread top speed 250 plus mph, for use of advanced flying school at YF -; 50 47 mm antitank guns; 650 tons of airplane bombs, mostly 100- and 500-lb; 330 tons artillery shells; 250 tons miscellaneous including some field guns, number or caliber unknown, fuses, and ammunition. Total some 1600 tons.

The remainder of this cargo still at Haiphong; about 1400 tons, consisting of airplane bombs, mostly 100-lb; artillery ammunition; fuses; gun sights, etc. (Note 1: In this connection the Chinese representative at Hanoi told me that one of the worst of his worries was that the interdicted shipment contained sights for guns already shipped to Yunnan, fuses for bombs already shipped, etc. Note 2: He also said that the Chinese wanted to ship the tanks to Kwangsi, but that the French insisted that they should go to Yunnan, whence it is extremely difficult to move them to points where they can be used.)

February, 1938, French origin: 4 Dewoitine pursuit planes; 459 cases of anti-aircraft machine guns; 935 cases (35 tons) of AA machine gun ammunition; 400 cases (25 tons) of 7.62 machine guns and ammunition;

146 tons of 10-kg. air bombs; 45 tons of fuses; 24 tons of miscellaneous ammunition; 354 tons of 10- and 50-kg. air bombs.

b. Gasoline and oil shipments to Yunnan: (Source: oil companies.)

	Number of cases shipped in				
	Nov.	Dec.	Jan.	Feb.	Total
Stanavo Avigas 87 octane	4454	1063	2496	###	8013
" " 74 "	4978	4464	5969	6026	21437
Shell aviation spirit 78 (12,500 still in Haiphong)	2500	###	###	###	2500
Shell aviation spirit 80 (1875 still in Haiphong)	###	###	###	7125	7125
Shell aviation spirit 87 (8870 still in Haiphong)	###	5120	###	###	5120
Stanavo engine oil #120	960	1100	940	###	3000
" " " #100	###	100	###	###	100
Texaco oil #120	###	###	538	262	800

Also a shipment of 14,182 drums (of 53 American gallons) of Richfield motor gas was made in February, and an additional shipment in early March amounting to 1292 drums.

(Note: In this connection, aviation school at Yunnanfu uses about 200 cases per flying day. Operations started about the middle of November, 1937, so they still had on hand about the end of March some eight months stock, including that in Haiphong ready for shipment.)

6. Other routes of entry into southwest China.

a. Kwangsi: There are three possible routes into this Interior province, as follows: (1) Pakhoi, (2) Nankuan, (3) Wuchow.

(1) At Pakhoi, the very narrow channel and inadequate discharging facilities limiting use of the port, and its vulnerability to Japanese air raids make it unsatisfactory as a port of entry. Altho there is a newly-opened road to Nanning, negotiable by motor car in about seven hours, no quantity shipments of munitions have been made thru this point.

(2) Shipments for Kwangsi via Nankuan from Haiphong go by barge or lighter up an arm of the Red River to Phu-lang-thuong, the trans-shipping point on the Hanoi - Langson - Dong Dang railway, thence by rail to the rail-head, Dong Dang, where they are transferred to trucks. The new highway from Nankuan just over the border from Dong Dang, runs thru Nanning and Liuchow to Kweilin. It is complete as to roadbed, but about half the bridges are of temporary wooden construction of 5 tons capacity and although these are rapidly being replaced by stone and concrete structures of over 10-ton capacity, it will be several months before the road is entirely complete and ready for all likely traffic conditions. This main highway does not pass thru Lungchow, which is 30 kilometers

away, up an all-weather, but narrow, twisting mountain road. No quantity shipments have been going thru on this Kwangsi route recently, chiefly because - according to the chief of the general staff office in Nanning - the troops at the front are supplied directly by the Central Government, and the provincial needs are limited to training requirements. However, the provincial authorities are making great efforts to complete the bridges on the highway, and, in conjunction with the Central Government, have started work on the new railway. Work began on April 2. The railway will be roughly parallel to the main highway, and will be constructed for standard gauge, with maximum grade 2%, but at first, at least as far as Nanning, meter gauge will be used to tie in with the French railways at Dong Dang. This line will hardly be completed within two years, however, and if the Canton - Hankow railway should be cut, chief reliance must be placed on the Kwangsi highway.

(3) Thru Wuchow the traffic is all by river, either steamers, or tows of junks. In January some 3000 aerial bombs, mostly 100-lb., were shipped in, and, according to local foreigners, are still in storage in that vicinity. No other considerable shipment of munitions had been observed, but large quantities of gasoline, benzine, and oil, have been transported thru to Liuchow, Kweilin, and other interior points, and many trucks for military use have gone the same way. I personally observed a shipment of 20 trucks loaded on junks, being towed up the West River from Wuchow. For extensive munitions shipments, however, this route is far too vulnerable to Japanese air raids, since almost daily their planes fly over the delta region.

b. The Burma route: Much seems to be expected by the Chinese from this route, but in my opinion it will be a long time before the road can sustain quantity shipments by motor truck. The two ends of the road are now in fair shape for light traffic, i.e., from Yunnan to Siakwan (near Talifu), and from Katha on the Burma railway to Mengshih, but the center section from Siakwan thru Paoshan to Mengshih, about 200 kilometers of the most difficult construction, is far from complete, according to reliable reports, and will require at least six months and probably a year before it is ready for traffic.

7. Comments. Obviously, so long as the Kowloon - Canton - Hankow railway is intact, the French prohibition will not have much effect, but in the event that this line is cut, the Chinese supply problem will become extremely acute, and all freight routes into southwest China will be sorely needed, since it will require the facilities of all of them to take over the volume of traffic now going thru Canton. It is therefore vital for the Chinese to find some formula for securing repeal of the French prohibition.

F. N. ROBERTS  
Capt., Inf., DOL  
Assistant Military Attaché

PSF: China

THE WHITE HOUSE  
WASHINGTON

*China folder*

*R.F.*

June 11, 1938.

MEMORANDUM FOR  
THE SECRETARY OF STATE

This is shown me in great confidence by Roy Howard. Please read and return and show to no one else. Please also note especially the last few paragraphs.

F. D. R.

*Most interesting -  
C.H.*

THE WHITE HOUSE  
WASHINGTON

June 11, 1938.

MEMORANDUM FOR  
THE SECRETARY OF STATE

This is shown me in great confidence by Roy Howard. Please read and return and show to no one else. Please also note especially the last few paragraphs.

F. D. R.

This letter from W. H. Donald, Madam Chiang Kai-shek's advisor, was returned to Mr. Early to return to Mr. Roy Howard.

2  
d-1-38

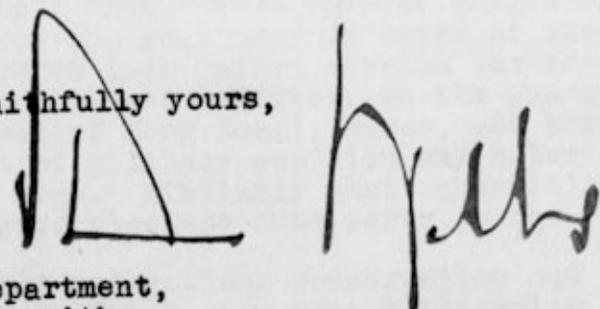
DEPARTMENT OF STATE  
WASHINGTON

June 24, 1938.

My dear Mr. President:

On the basis of available information, including reports from American military observers and from American consular officers at Hong Kong, Canton, Yunnanfu, Saigon and Rangoon, the War Department has prepared a letter under date June 15, 1938, giving an estimate of the munitions traffic into China. I enclose a copy of the War Department's letter, with appendices. I believe that you will be especially interested in the penultimate paragraph of the War Department's letter and in the map accompanying the letter.

Faithfully yours,



Enclosures:

From the War Department,  
June 15, 1938, with  
appendices;  
Map.

The President,

The White House.

**Department of State**

BUREAU  
DIVISION

**FE**

**ENCLOSURE**

TO

Letter drafted .....

ADDRESSED TO

**The President.** .....

WAR DEPARTMENT  
Washington, D. C.

June 15, 1938

The Honorable,

The Secretary of State.

Dear Mr. Secretary:

Reference is made to your letters of March 2 and 7, 1938, asking that data as to the volume of military supplies entering China via Lanchow, Kansu and Lungchow, Kwangsi be secured for the information of the President. In a letter dated April 20, 1938 I informed you of the contents of radio reports received from American military observers sent to those points. Since then additional information has been received which enables me to give you a more complete estimate of the munitions traffic into China. Therefore the following information is submitted.

It is estimated that over seventy-five per cent of the military supplies imported into China since the start of the hostilities have been routed through Hong Kong. The routes of entry for the remainder in order of their importance are French Indo China, Russian Turkestan, Kwangchowan (French leased territory on the Kwangtung coast 220 miles southwest of Hong Kong), Macao, and Burma. A negligible amount of military supplies may enter China from Siberia via Urga. Similarly small quantities may pass through the Japanese blockade into ports on the China Coast.

Extensive road and railway construction and improvement are now in progress with a view toward bettering communications with countries bordering China and so facilitate shipments of military supplies. In Yunnan, the caravan route from Talifu to Burma is being improved into a road suitable for wheeled traffic, and an extensive road net is being constructed connecting Yunnanfu, the terminus of the French railway from Hanoi, with roads leading north, east and west. In Kwangsi railroads and roads are under construction connecting the railway terminus at Langson, French Indo China, with the Canton-Hankow railway via Nanning and Kweilin. The long route from Russian Turkestan has in large part been made suitable for heavy hauls in all weathers.

The material imported consisted primarily of the following:

- (a) Aircraft and aircraft supplies.
- (b) Explosives and other components for the manufacture of bombs, artillery ammunition, trench mortar ammunition, small arms ammunition and hand grenades.
- (c) Small arms ammunition.
- (d) Artillery ammunition.
- (e) Machine guns and small arms.
- (f) Antiaircraft guns and ammunition.
- (g) Antitank guns and ammunition.
- (h) Artillery and trench mortars.
- (i) Tanks and armored cars.
- (j) Aircraft bombs.

Little artillery (other than as indicated above) has been imported since the start of hostilities.

Germany, until its recent decision to cease shipping munitions to China, furnished the largest percentage as well as the largest variety of military supplies. Other countries furnishing munitions in order of their probable importance are Russia, Italy, England, France, United States, Belgium, Sweden, Austria, Switzerland, and Denmark. The heavy German participation in the munition trade to China is probably due to a barter agreement between the two countries concluded in 1935 and to the presence of the German advisers. Practically all the materials purchased from Germany can be procured elsewhere provided China can secure the necessary credit or provide foreign exchange.

Chinese claim they now have sufficient supplies on hand for one more year of warfare.

It is believed that the military supplies now being imported into China together with the reserve on hand are sufficient to maintain the Chinese forces in defensive operations on the present extensive scale. It is estimated that a minimum reserve of four months' supply of essential military supplies are now in China either in arsenals and supply dumps or en route thereto.

From the standpoint of supply, continued large scale Chinese operations are contingent upon the maintenance of China's purchasing power abroad, upon keeping the present route via Hong Kong open until efficient substitute routes can be established, and upon continued Chinese occupation of the areas containing important Government arsenals, particularly those in the Hankow area.

Sincerely yours,

(Signed) LOUIS JOHNSON

Acting Secretary of War.

Sources:

Reports of American military observers.  
Reports from the American Embassy at London and  
Consulates at Hong Kong, Canton, Yunnanfu,  
Saigon and Rangoon.  
Reports from O.N.I.  
Press dispatches.

6 Appendices and chart - Routes:

- A. Hong Kong
- B. French Indo China
- C. Russian Turkestan
- D. Kwangchowan
- E. Macao
- F. Burma.

APPENDIX "A"

HONG KONG

Shipments passing through Hong Kong originate from all countries mentioned in basic letter. According to official British figures the following types of material passed through the port during the period from August 8, 1937 to March 31, 1938. These are shown with countries of origin.

(a) Airplanes, airplane machinery and parts - United States, England, Italy, Germany.

(b) Explosives and ammunition components - Germany, United States, Italy, France, Sweden.

(c) Small arms ammunition - Sweden, Germany, England, Belgium, United States, France.

(d) Artillery ammunition - Germany.

(e) Machine guns and small arms - France, Germany, United States, Belgium, Sweden.

(f) Antiaircraft guns and ammunition - Germany, Switzerland, France, Sweden.

(g) Antitank guns and ammunition - Germany, Switzerland, Austria, Sweden.

(h) Artillery and trench mortars - France.

(i) Tanks and armored cars - Russia, Italy, Germany.

(j) Airplane bombs - Germany, Italy.

From Hong Kong military supplies are shipped over the Canton-Kowloon railway to Canton, then over the Canton-Hankow railway to designated points in Central China. The water route between Hong Kong and Canton is under Japanese surveillance. British steamers refuse to take munition cargoes and Chinese vessels can carry them only at the risk of attack by Japanese naval craft.

Japanese air attacks on the Kwangtung railways have been comparatively ineffective. Since the start of hostilities it is estimated that through railway traffic has been halted for a total period of 10 days. Despite the present continuous bombardment of Canton, no reports on the interruption of railway traffic have been received. Complete interruption of traffic between Hong Kong and Canton, before adequate alternate routes are completed, will have a serious though not immediate effect on Chinese fighting power.

## APPENDIX "B"

### FRENCH INDO CHINA

Practically all munition shipments that have passed through French Indo China originated in France and Russia. Large quantities of American aviation gasoline have also been transported. French shipments have included aircraft, trench mortars, and a few mountain guns. Russian shipments contained aircraft, bombs, tanks, antitank guns, artillery and artillery ammunition. A shipment from Belgium over this route in December, 1937 is reported to have contained 18 batteries of artillery, 4,000 cases of ammunition, 1,000 machine guns and automatic rifles and 300 trucks.

Haiphong is the principal port of entry. Direct shipments to Yunnanfu are made over a narrow gauge railway running via Hanoi. New and improved motor roads from Yunnanfu now lead to Chungking and to Hankow via Kweiyang and Changsha. Shipments are also made to Kwangsi via Langson, French Indo China. Langson is connected with Haiphong by a branch railway line. From Langson a good highway leads to Lungchow, Nanning and Kweilin, all in Kwangsi Province. Direct river traffic between Lungchow, Kwangsi and Canton, via Nanning is also available. Press reports state that a French syndicate has agreed to start immediate construction of a railway from Langson, French Indo China to Nanning, Kwangsi. A railway connecting Nanning with the Canton-Hankow railway via Kweilin is now under construction. When these railways are completed they will form an alternate direct munitions route in case the Canton-Kowloon or the southern section of the Canton-Hankow railways are cut.

Local French authorities placed an embargo on munition shipments to China, not of French origin, on February 7, 1938. In March the embargo was made to include French munitions. The embargo did not include commercial material, including airplanes, and was fairly liberally interpreted. Many cases marked "pianos" and "machinery" probably contained munitions. Recent reliable reports state that the embargo will soon be lifted and that France will again openly ship munitions to China.

APPENDIX "C"

RUSSIAN TURKESTAN

Shipments from Russia over this route included aircraft parts (aircraft are normally flown across), aviation gas, bombs, antiaircraft guns, machine guns, small tanks, ammunition, and searchlights. It is believed that this route is used primarily to supply and maintain the Russian material flown and shipped via this route into China.

Supplies are routed via the Trans-Siberian Railway to Novosibirsk, then over the Turk-Sib Railway to Sergopol and Alma Ata. From these points shipment continues by truck via Urumchi (Tihwa), Hami to Lanchow, Kansu. From Lanchow good roads lead to Sian, Shensi, on the Lunghai Railway. It is estimated that the truck trip from the railroad on the Turk-Sib Railway through to Lanchow, Kansu takes 23 days. The maximum supply possibilities of this route under present conditions are estimated at 100 tons per day. The actual deliveries, however, are believed to average less than 25 tons per day. Shipments of ammunition are under all Russian control. Motor repair stations have been established at Urumchi, Hami, Lanchow and Sian.

APPENDIX "D"

KWANGCHOWAN

Kwangchowan is a strip of territory on the Kwangtung coast, about 220 miles southwest of Hong Kong. It was leased to France for 99 years in 1900. While there is a good harbor at Fort Bayard, no docks are available and all shipments must be lightered ashore. A good road extends from Fort Bayard to the West River which gives direct water communication to Canton and to Kwangsi. Forty new White trucks are reported to be in operation on the Fort Bayard-West River road. No information is available as to the type or quantities of material being shipped over this route.

APPENDIX "E"

MACAO

The Portuguese authorities at Macao are making every effort to prevent shipments of munitions from passing through the Settlement. However, a considerable amount of railway material has entered China via Macao. Small scale smuggling of munitions is also reported.

APPENDIX "F"

BURMA

At present this route is confined to caravan travel between the stations of the Burmese railways at Myitkyina, Bhamo, and Lashio, and Talifu in Yunnan. A good road exists between Talifu and Yunnanfu. At present Chinese authorities are bending every effort to build a road suitable for wheeled traffic to connect Talifu with the railways. They claim that it will be ready for operations this summer. The difficulties in building this road are great, as it must cross two mountain ranges and the headwaters of the Meking and Salween Rivers. Until the road is built, only a negligible amount of small arms ammunition can be transported along this route.

June 24, 1938.

My dear Mr. President:

On the basis of available information, including reports from American military observers and from American consular officers at Hong Kong, Canton, Yunnanfu, Saigon and Rangoon, the War Department has prepared a letter under date June 15, 1938, giving an estimate of the munitions traffic into China. I enclose a copy of the War Department's letter, with appendices. I believe that you will be especially interested in the penultimate paragraph of the War Department's letter and in the map accompanying the letter.

Faithfully yours,

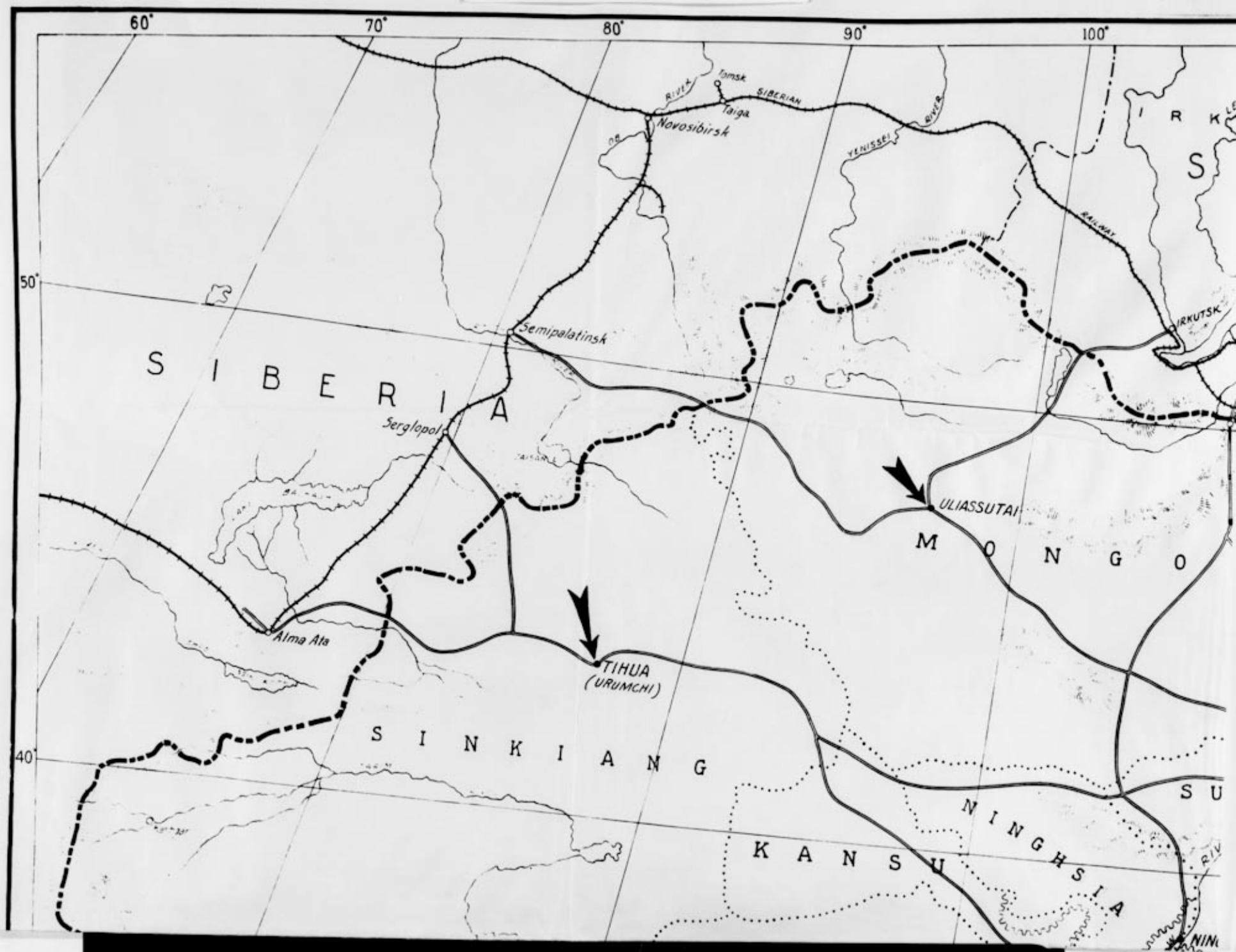
SUMNER WELLES

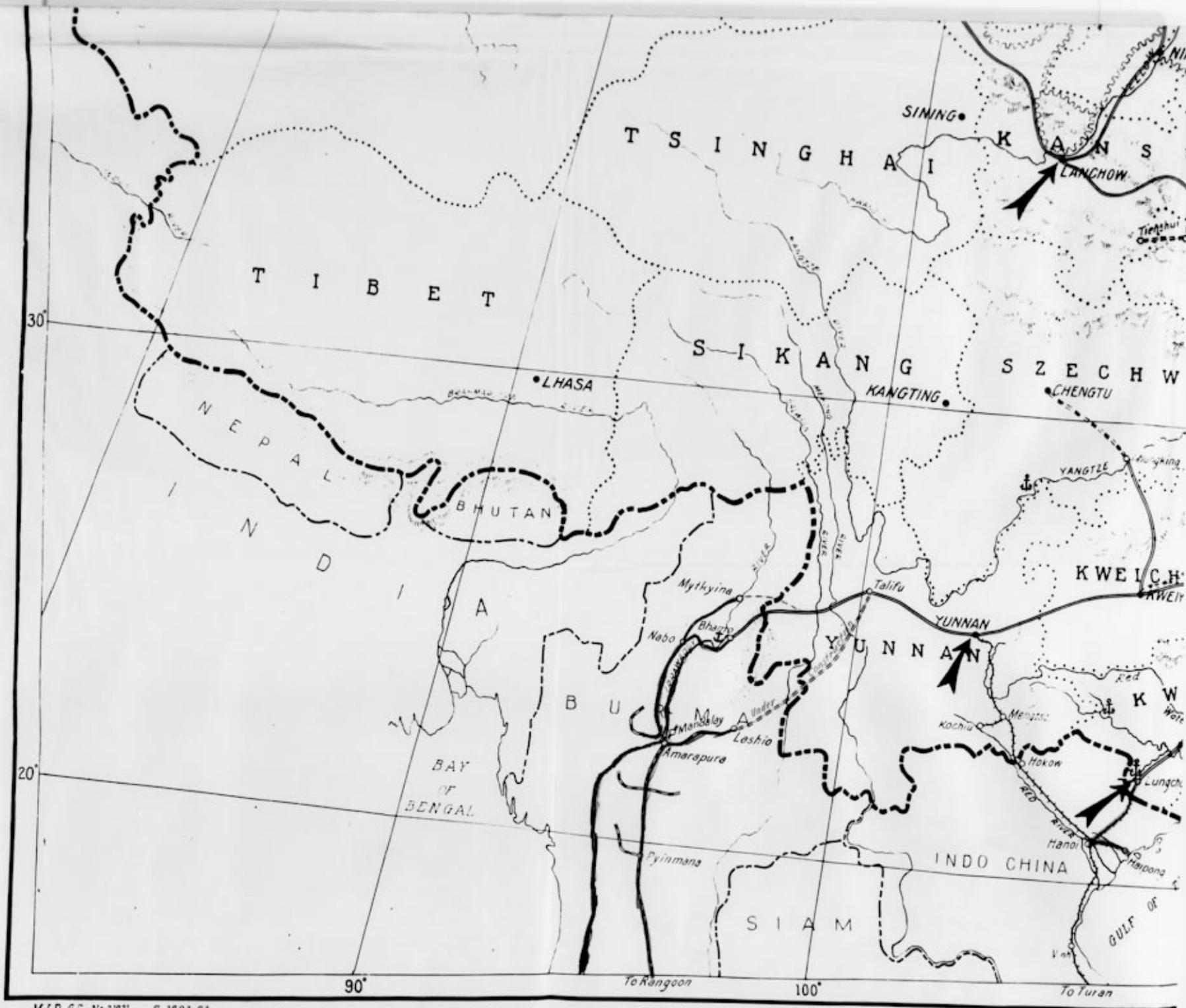
Enclosures:  
From the War Department,  
June 15, 1938, with  
appendices;  
Map.

The President,  
The White House.

THIS OVERSIZE ITEM HAS BEEN  
MICROFILMED IN SECTIONS.

# CHINA AND ADJACENT





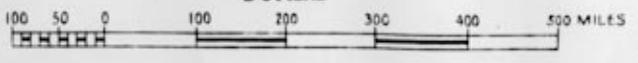




**LEGEND**

- Points of entry for Military Supplies
- Main Thru Routes
- Limit of Navigation
- Leased Territories
- International Boundaries
- Province Boundaries
- Rivers, (important)
- Rivers, broad gauge, 5'0"
- S.M.R. - standard - 4'8"
- State Rvs.
- " " under construction
- " " planned
- Private Lines
- Narrow gauge 1 meter

**SCALE**



110° 120° 130°

DEPARTMENT OF STATE

THE SECRETARY

July 30, 1938.

R.F.

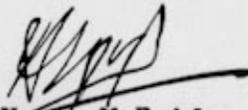
Dear Mr. Forster:

This is the memorandum about which  
I spoke to you on the telephone.

Secretary Hull requests that it be  
put in the pouch for the President.

Many thanks.

Sincerely,



H. A. McBride,  
Assistant to the Secretary.

Hon. Rudolph Forster,  
The White House.

July 28, 1938.

PROJECTS UNDER DISCUSSION FOR  
FINANCIAL ASSISTANCE TO CHINA.

There is under discussion a project for the purchase by the Chinese Government from the Chrysler Corporation of automobile trucks to the number of a thousand or more, with possible participation by the Export-Import Bank in the financing to the extent of 25 percent, or some like amount, of the sales value.

Since these trucks would not be considered as falling under the embargo provisions of the Neutrality Act relating to arms, ammunition and implements of war, and since international trade is at least otherwise supposed to be carried on as usual, the Department of State, Mr. Jesse Jones and Mr. Pierson are favorably disposed. The Treasury Department is ~~apparently~~ unfavorably disposed. If this policy were adopted, and if then there should be any objection on the part of any person or official on the score of its aiding China, the action taken would be justified on the theory that we are not called upon to abandon trade relations; that it would increase our export trade; that it would tend to offset a growing opinion, especially in China, that this country constantly decries armed aggression but does nothing toward preventing aggression; and that it is in keeping with the general spirit and intent of the "good neighbor" principle.

It

It will be remembered that last fall we, as a signatory of the Nine Power Treaty, while making no mention of or reference to the broad doctrine of the aggressor, did expressly declare Japan a violator, by virtue of her invasion of China, of the Nine Power Treaty.

The British Government recently announced that the Chinese Government had applied to it for a loan of \$100,000,000 for support of China's currency; that the British Government could not make such a loan, as it had no authority to make a loan; but that, if British banking interests should undertake to make such a loan, it would look upon the project sympathetically. A British press account stated that it was understood that the British Government was in part influenced by apprehension of the possibility of an adverse reaction from Japan.

We of the Department of State feel that, in reference to a project such as that of giving credit in connection with a possible purchase of trucks, the Japanese would of course deprecate favorable action on our part but would not be able to offer any reasonable objection and would not be moved to venture upon any serious action by way of or on the theory of reprisal.

There is also under discussion a project for purchase by the Chinese Government of cotton goods and flour, from this country, on the basis of possible financing in the form of a credit by the Export-Import Bank. The Chinese Ambassador approached Mr. Pierson last week on the subject of cotton and wheat; Mr. Pierson said that it would be preferable to discuss cotton cloth and flour. The suggestion has been made tentatively that the terms and specifications of the cotton and wheat loan of 1932 might be made use of in arranging for the setting up of a new credit on similar lines. Mr. Pierson apparently feels that this might be practicable. The Department of Agriculture is, I understand, favorably disposed in principle. This Department feels that some effort <sup>^</sup> *further to develop this idea* along that line at this time might be useful.

--- oo ---

A suggestion has come from a prominent Chinese business man that an arrangement be made whereby the American Government (or some agency thereof) would purchase and the Chinese Government (or some agency thereof) would sell a supply of tungsten. This proposer states that the Chinese are selling tungsten to Germany and Italy and are getting the tungsten out of China by way of Hong Kong; and that the Chinese are buying against the

the

the proceeds needed supplies. This proposer states that China might be able to supply for sale to the United States as much as 750 tons of tungsten per month, and that the current market price is about \$1,100 per ton. This proposer suggests an arrangement whereby some such amount per month over a period of many months would be contracted for. -- This Department has made inquiry of the War Department and has ascertained that the War Department is desirous that a reserve supply of tungsten be laid up, that the War Department would be favorable in principle to the making of a substantial purchase, and that the War Department estimates indicate that a figure of 6,000 tons for a reserve supply of tungsten for our general national needs would not be excessive.

C.H.

PSF: China

THE WHITE HOUSE  
WASHINGTON

October 14, 1938.

MEMORANDUM FOR  
THE SECRETARY OF STATE

TO READ AND RETURN

F. D. R.

Thanks  
CH

ROGER S. GREENE  
548 LINCOLN STREET  
WORCESTER, MASS.

PSF: China  
Lancets

It appears that the American people and their government believe:

1. That the Chinese cause in the Far Eastern war is just.
2. That it would be to our advantage if China maintains her independence, on such grounds as these: (a) American trade would have a better chance; (b) a better balance of power in the Pacific will be created; (c) aggressive nations may learn that they cannot attempt conquest of their neighbors with impunity; (d) our expense for armament may be reduced. I believe also that future economic competition between East and West will be less acute if the Chinese develop their resources for themselves than if they become enslaved to Japanese industry as Japan is planning. The American Commercial Attaché in China shares this opinion.

If the above view of American opinion is correct, ought we not to act to promote the end we consider desirable, just and advantageous to us?

Joining in the war would not be approved by our people and might be opposed on more fundamental grounds except as part of combined pressure from several nations, but other and safe means seem available.

An embargo on the export to Japan of raw materials and other articles necessary for war would be reasonable. Japan is now trying to buy abroad only articles believed necessary, directly or indirectly, for war. Japan has food enough for her people. An embargo would be safe from serious criticism on humanitarian grounds. The petroleum products, metals, motor equipment and machinery we are sending Japan are more indispensable to her than finished munitions.

Credits to China to enable her to maintain her own defense would be true economy for us, since a Chinese victory would reduce the chances of our being involved in war in the Pacific ourselves at far greater expense. Credits might be applied first to purchases of motor equipment, machinery and petroleum products urgently needed for defense and industrial development in the southwestern provinces where transport and industry are little developed. Financing of mechanical equipment sales would pay more wages to American labor and develop future markets for extensions and replacements. If China wins, repayment of reasonable advances may be expected. China is still paying on obligations to us and other foreign countries, in spite of her poverty. On the London market, better informed on such matters than New York, the rates bid for Japanese and Chinese bonds were recently 41 3/4 for Japanese 5s of 1907, and 64 for Chinese 5s of 1925.

It seems clear that Japan would not treat either an embargo on war materials to her or credits to China as a casus belli. She wants no additional enemies now. She could not afford to lose her silk and other exports to the United States, on which she depends for foreign exchange. She is already blocking American trade in the Yangtze valley and in North China and could do little more in the way of reprisals, though she could make some trouble in Shanghai and Tientsin.

The peace of the world is threatened by three aggressive powers in combination. Each depends on the others to support her in a crisis. Japan has threatened Russia in the East, making Russia a less serious menace to German plans in Europe. Harmony between Japan and Germany has already been impaired by injury to German trade in China and by the lessening of Japan's value in case of war between Germany and Russia. If Japan fails in China her prestige will be gone, her resources exhausted and her military class discredited, and Russia need no longer fear her. The aggressive combination will be broken and Europe as well as Asia will have a better chance for peace.

If, to get back part of the trade in China which Japan has by violence taken from us, we adopt positive measures to promote transport and industry in the southwest, giving our merchants access through the safe Burma and Indo-China routes, Japan will have no just ground to complain.

R.S.G.

CHINESE EMBASSY  
WASHINGTON

TEXT OF A TELEGRAM FROM HIS EXCELLENCY  
DR. H. H. KUNG, PRESIDENT OF THE EXECUTIVE YUAN,  
DATED CHUNGKING, NOVEMBER 9, 1938.

Kindly transmit the following message from the Generalissimo to the President, which has my hearty concurrence:

"I greatly appreciate your friendly interest and effort and those of Secretary Hull and Secretary Morgenthau as manifested in what you have done for my country and especially in what you are doing at a time when the fate of my country is regarded by skeptic observers as already beyond hope. I especially appreciate the kind efforts of your Government in the silver purchase, in the proposed loan, and in the most recent stand on the Nine-Power Treaty.

"You may be interested to know that, in my address to the nation on October 31st, I have stressed the following points: that China will continue her policy of prolonged nation-wide resistance till we can obtain military initiative in the war; that we can only win final victory through greatest hardship and sacrifice; that this war is "revolutionary warfare" wherein the spirit of the people will ultimately win out, — witness the wars of American Independence, French and Russian Revolutions, and Turkish Emancipation; that China's main base of resistance is the vast hinterland, and the past sixteen months of resistance has succeeded  
in retarding

in retarding the westward advance of the enemy, thus enabling us to develop communications and remove some industries thither, and concentrate weapons to wear down the invader; and lastly, that now the war is really "nation-wide" and the enemy drawn to the interior, both time and geography are favorable to China's side.

"You may also be interested to know that this policy was unanimously adopted by the People's Political Council at its Second Session.

"You must have read of reports of peace moves and peace talks in China. On the question of peace, I wish to assure you, Mr. President, that, while Japan has indicated some willingness to talk peace, and while our people are peace-loving and would not be unreasonable regarding peace, peace is impossible simply because China cannot possibly undertake to negotiate for peace as long as Japan insists upon "direct dealing" with China without the good offices of friendly powers in whom we can trust,- which, of course, means a peace to be dictated by Japan. As long as Japan does not fundamentally repent and revise her policy, China has no alternative but continue her struggle for her right to live and develop without external interference.

"I am deeply interested in your Government's recent protest to Tokyo on the question of the Open Door in the Chinese territory now under military occupation by Japan. The present war in China has most eloquently vindicated the wisdom of the fathers of the Open Door Policy and the Nine-Power Treaty that an independent and modernized China is the only stable and effective means to keep the Door of China open to all nations."





THE SECRETARY OF THE TREASURY  
WASHINGTON

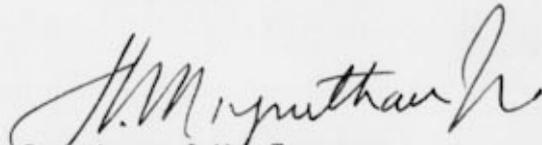
November 11, 1938

My dear Mr. President:

I am enclosing herewith:

1. My recommendation to you regarding the purchase of tung oil from China.
2. Photostatic copy of letter from Mr. Jesse Jones, Chairman of the Reconstruction Finance Corporation, bearing on the same subject.
3. An inter office memorandum from Assistant Secretary Wayne Taylor.

Sincerely,

  
Secretary of the Treasury



THE SECRETARY OF THE TREASURY  
WASHINGTON

November 11, 1938

My dear Mr. President:

As I have previously reported to you, a delegation representing the Government of China has been in Washington for over a month seeking financial assistance. I have conferred at length with them and experts in the Department have given careful study to their problems.

One plan which appears feasible is a comparatively simple one - in essence it is merely the financing of an exchange of necessary Chinese goods for domestic products. China produces, and is in a position to export, tung or wood oil - an industrial product much needed here and of particular value in the manufacture of quick-drying varnish and paint. Last year approximately 75,000 tons of this oil were consumed here of which less than 5 per cent was produced domestically. It is obvious, therefore, that as more than 95 per cent of our needs must be imported in any event, no competition harmful to American industry can result from the importation of tung oil from China.

In order to finance the purchase of Chinese tung oil, a Chinese trading corporation has just been organized under New York law. The plan under discussion contemplates that this corporation, which will be controlled by the Chinese Government, will make a contract to

purchase 180,000 tons of tung oil from the appropriate Chinese agency, delivery to be made in fixed yearly amounts over a three year period, beginning at 50,000 tons per year and increasing 10,000 tons annually. The trading corporation will pay the Chinese agency immediately one-half or more of the purchase price which will be advanced before any tung oil is delivered. If the oil is purchased for 12¢ per pound, the cost of the three years' supply of tung oil would be \$43,200,000. If the initial payment is one-half of the purchase price the Chinese Government would receive \$21,600,000. The Chinese trading corporation would obtain the necessary funds for this initial payment by way of loan from the Export-Import Bank. The Bank, in turn, would be put in funds for this purpose through the purchase by the R. F. C. of its preferred stock. Security for the loan would be:

- A. All inventories and other assets of the Chinese trading corporation,
- B. A loan agreement between the Export-Import Bank and the Chinese trading corporation based upon the contract of the Chinese agency to deliver tung oil to the trading corporation. The loan agreement would also provide that upon the sale of tung oil in this country, according to the above example, one-half would be paid to the Export-Import Bank to retire the loan, and the other half would be credited to the Chinese agency, and
- C. An unconditional guarantee of the notes of the Chinese trading corporation by the Chinese Government.

Adequate provisions to insure that no disruption of the business of either the American dealers or consumers will take place, and that all dealers and consumers will be treated on a parity would be included in the contract between the Export-Import Bank and the Chinese trading corporation. An additional safeguard would be a requirement that all the proceeds from the sale of tung oil, i.e., \$43,200,000, would be expended by the Chinese trading corporation for the purchase of American goods, and to this extent business in this country will be stimulated and employment created. The Chinese trading corporation would also sell the tung oil in this country at prices based upon the contract between it and the Chinese agency, making nominal allowance for operating expenses (i.e., the Chinese trading corporation will not realize a profit from the transaction) so it is expected that the price of tung oil to American consumers will be somewhat reduced below the average for the past few years and that speculation will be curtailed or perhaps eliminated entirely.

I am informed that the plan would meet the approval of tung oil consumers since it would effect price stabilization of a product which has been subject to drastic price fluctuations (during the last few years the price has ranged from 6¢ to 29¢ per pound) as well as insuring a regular and continuous supply of tung oil in this country.

Before negotiating further with the Chinese delegation, I would appreciate an expression of your views concerning this plan. An early

conference with representatives of the Treasury, the R. F. C. and the Export-Import Bank might prove helpful.

Sincerely,

*J. M. Moynihan Jr.*  
Secretary of the Treasury.

The President

The White House.

# RECONSTRUCTION FINANCE CORPORATION

WASHINGTON

JESSE H. JONES  
CHAIRMAN OF THE BOARD

October 24, 1938

Dear Mr. Secretary:

Reference is made to our conversation regarding a suggested loan of \$20,000,000 by the Export-Import Bank to a Chinese owned American trading company, the loan to be guaranteed by the Government of China or the Bank of China and the proceeds used to buy agricultural products and manufactured goods in this country for export to China.

In 1934 we agreed to lend China \$50,000,000 to be used in the purchase of cotton and wheat. Only \$17,105,385.80 of this credit was used. In 1931 the Grain Stabilization Corporation, a Government agency, sold China 15,000,000 bushels of wheat for a consideration of \$9,212,826.56. The unpaid portions of these credits were taken over by the Export-Import Bank in April 1936.

In April 1937, a loan of \$1,600,000 was authorized for the purchase of locomotives in this country. Disbursement of \$733,200 on this loan was made in April 1938. It matures monthly over a period of five years.

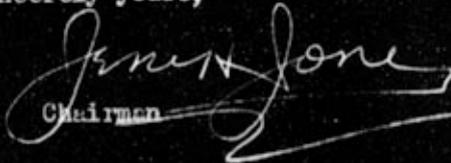
It will be seen that our total Government credits to China since September 1931 aggregate \$27,051,412.36. \$14,419,892.36 has already been repaid and the balance is being paid as it matures. \$3,801,055.62, including interest, has been paid since September 30, 1937, the last payment having been made September 30, 1938.

While it is not possible to foresee the outcome of the present situation in China, it is probably safe to assume that China will pay her debts, and if none of the purchases in this country would be in conflict with the Neutrality Act, I see no reason why the credit should not be made. Particularly since it is contemplated the borrowers will sell to American importers Chinese products necessary for us to import, for delivery within the period of the maturity of the note, approximating the amount of the credit.

The Export-Import Bank would need to be put in funds through the purchase by the RFC of its preferred stock in the amount of the credit. The President approving, the Bank is prepared to make the loan under suitable provisions to assure the disbursement of the funds in this country for the purchase of American products.

Sincerely yours,

Honorable Henry Morgenthau, Jr.  
Secretary of the Treasury  
Washington, D. C.

  
Chairman

# TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 20, 1938.

TO Secretary Morgenthau  
FROM Mr. Taylor

Regardless of the technicalities which appear to surround modern conflicts, it is obvious that Japan and China are engaged in a bitter war. If an agency of this Government extends credit to the Chinese Government to enable that Government to purchase food, clothing or war supplies and fails to extend similar credits to the Japanese Government it is equally obvious that this Government has chosen to aid one of the combatants, and that the world at large and the combatants in particular will so interpret such an action. If, on the other hand, in a spirit of impartiality an agency of this Government should extend credit to both combatants on equal terms, this Government would then be in the position of underwriting a war, and thereby helping to prolong it to the extent to which this Government might make such credits available.

The nuance involved in an agency of this Government making a loan to a Chinese Government owned American Corporation, which in turn advances substantial amounts of money obtained from the American taxpayers on the security of a contract for possible future deliveries of tung oil does not in any way alter the fundamentals. The transaction is one involving responsible officers of this Government in a series of acts leading to the use of public funds for the purpose of giving financial aid to a belligerent.

While no one has ever been wise enough to predict the duration of any struggle of this character, the length of the present conflict

is particularly difficult to estimate, nor is it possible to evaluate the credit performance of nations engaged in armed combat. Nevertheless, it should be evident that the longer the combat, the more the credit, the greater the destruction of human and economic values and the greater the ultimate credit collapse. Certainly our own experience as a creditor would indicate that outright gifts to belligerents, even when these belligerents are on our own side, is preferable to disguising as credits our contributions to a cause which we have selected.

Many things have happened in the world since Congress last expressed itself on the subject of neutrality, it may well be the case that the people of this country would like to aid the Chinese people in their conflict and that if the questions were presented to them through their chosen representatives that they would vote to extend credits to the Chinese Government or to make a gift of some of our abundant wheat and cotton. However, in the absence of a specific expression of opinion by the American people on the specific points at issue, it is my conviction that any executive officer of this Government would stretch to the breaking point any authority hitherto delegated to him by Congress if he approved the proposed tung oil transaction, the wheat and cotton credits, or any other credits involving the direct or indirect use of Government funds to aid active combatants engaged in declared or undeclared war.

I strongly recommend to you that these and similar credit negotiations be dropped for the reasons which I have stated above.

*Wesley Taylor*

Memo  
by

File  
personal  
& confidential

November 14, 1938.

Cordell Hull for the Treasury and the President,

The Treasury Department's barter and credit proposal with regard to China is almost purely political. It would not be considered - certainly by Japan - as a mere commercial transaction, but as a transaction one of the major purposes of which would be to aid China in her military activities against Japan.

Naturally, all American Government officials are equally desirous of getting rid of surplus production and they are also equally anxious to see Japan defeated in her purpose by the exercise of force to dominate the Far East and repudiate and render inoperative the Nine Power Treaty. In these circumstances all of our Government officials, therefore, would be equally disposed to see this Government indulge in any word or act consistent with its situation and short of the serious risk of becoming involved as a party in the military conflict between China and Japan that would be calculated to discourage the Japanese military objective and to encourage Chinese military resistance.

Japan, viewing as she undoubtedly would the proposed transaction as one of definite aid to China in the fighting against Japan, would complain bitterly and charge the United States with having made itself a party to the conflict on the side of China. The military clique in control  
would

would map Japan's actions in return and they would in all probability include increasing injuries to American citizens and American interests in China, and perhaps one or more methods of retaliation. This transaction and the incident relating to it when combined with other acts, which might follow, of injury and possible retaliation by Japan would result in a serious possibility of this country being drawn ultimately into the war, as stated.

If it is desired to go forward with these possible developments in view, then it would be all-important that the American people and the Congress be disposed and ready to support this new policy, and this would include the sending of the Navy farther beyond Hawaii than at any time in similar circumstances within recent years.

Great Britain and France are and for a time will be preoccupied with Western European exigencies. China is understood to have adequate military supplies for the next six to ten or twelve months. There would be time for further developments and their full consideration in the meantime.

I cannot in the light of all the foregoing, as well as numerous other pertinent facts and circumstances which I have not the time now to enumerate, either advise or concur in the course proposed.

DEPARTMENT OF STATE  

---

THE SECRETARY

*The Secretary*

DEPARTMENT OF STATE  
ADVISER ON POLITICAL RELATIONS

November 14, 1938.

The Tung Oil Project and American Policy  
in General in Regard to the Far East.

In considering the tung oil project, the American Government should, in my opinion, first of all give intensive consideration to certain political aspects of the problem presented and related problems. The political implications and possibilities of the project are far more important, both as regards our foreign relations and as regards our internal situation, than are the economic aspects of the matter. In this memorandum I shall speak, briefly, only of certain of the political aspects.

It is an important interest of the United States that Japan not gain control of China. It therefore would be to our interest that Chinese resistance to Japan's effort to gain that control continue. The Japanese nation today is animated by concepts and is pursuing objectives which are in conflict with the concepts and the legitimate objectives of the people of the United States. The Japanese are embarked upon a program of predatory imperialism. Unless the Japanese  
march

march is halted by the Chinese or by some other nation, the time will come when Japan and the United States will be face to face and definitely opposed to each other in the international political arena. It is desirable that the development of such a situation be prevented. It therefore is desirable that the United States act toward the preventing of such a development.

The American Government should formulate and adopt a program of action (a diplomatic "war plan") toward averting an armed conflict between the United States and Japan. In the conducting of our relations with Japan and with China we should not take haphazard and unrelated steps. Such action as we may take in the realm of use of words should be related to action which we may plan to take in the realm of material pressures (positive or negative, or both). It should be our objective to have Japan's predatory march halted. Our course of action should, therefore, be a course in opposition to that march. That march will be halted only by the power of resistance of material obstacles and material pressures. Any nation which definitely opposes that march should be prepared in last analysis to use, if it prove necessary, armed force. The Chinese have already found resort to armed force necessary. China's resistance may possibly be overcome by Japanese armed force. Resistance which  
may

may be made by other countries may in the long run have to take the form of armed force. This country, therefore, in formulating its course of action should make it its business to be prepared if necessary to use armed force.

The American Government has during recent years been opposing Japan by use of words (appeal to principles, to rules of law, to provisions of treaties, etc.). Our Department of State may be able to get the better of the Japanese Foreign Office -- though even that is not certain -- in the field of argumentation, but victories on our part in that field will not halt the forward march of Japan's military machine. The fact is that unless the United States expects and intends to use weapons stronger than those of argument, continuance on our part along that line is almost certain to lead to the development of a situation in which this country will have either to accept a diplomatic defeat or find itself forced to resort to arms. The more we talk and the longer we refrain from resort to some substantial measures of positive (material) pressure toward preventing the Japanese from taking or destroying our rights, titles and interests in the Far East, the more likely will it be that resort by us to such measures at some future time -- if and when -- will be replied to by the Japanese with resort to armed force against us, which would, in turn, compel us to respond with armed force.

The most practicable course for us to follow would be that of giving assistance to the Chinese and withholding those things which are of assistance to the Japanese, toward prolonging and strengthening China's resistance and curtailing Japan's ability to continue military operations against China. If and when, however, we commit ourselves to that line of action, we should do so wholeheartedly and with determination. We should not take some one step without expecting, intending and being able to take further steps, many further steps, in the same direction. Such steps should include a combination of diplomatic, economic and potential military pressures. If this Government wishes to embark upon such a course, it should be prepared to consider seriously the taking of such steps as denunciation of the U.S.-Japan Commercial Treaty of 1911, repeal of the Neutrality Act, retaliatory tariff measures against Japan, placing of embargoes upon trade and shipping between Japan and the United States, disposal of our naval resources in such manner as to indicate to the Japanese Government and nation that we "mean business."

The tung oil project is a project the objective of which is to give assistance to China. The amount of assistance which would be given by the consummation of this transaction alone would not be sufficient substantially to influence the situation in which resides our problem.

If

If this Government, speaking and acting for the American people, is prepared to move forward with a comprehensive program along such lines as are indicated above, consummation of the tung oil project would be in line with and consistent with such an attitude and intention. But unless such is the case, consummation of the tung oil project would achieve so little and be accompanied by hazards and possibilities of complications so great that consummation of that project would not, it is believed, be advisable.

Decision whether to consummate or not to consummate this project should be made, not on the basis of the inherent merits or demerits of the project and not on the basis of the desire of this country that China be not defeated by Japan, but on the basis of and in the light of a decision by the American Government to exert itself actively and intensively toward throwing the weight of this country's capacity into a general effort to halt Japan's predatory advance. It is the belief of the undersigned that the American Government should consciously and definitely commit itself (the Government) to such an effort and that it should formulate a comprehensive general plan of procedure toward that end.

~~SKH~~  
Stanley K. Hornbeck

File  
*confidential*

THE WHITE HOUSE  
WASHINGTON

December 12, 1938.

MEMORANDUM FOR

MRS. ROOSEVELT

TO READ AND RETURN TO ME

F. D. R.

*Return to*

China

DEPARTMENT OF STATE  
WASHINGTON

December 6, 1938

My dear Mr. President:

In response to your memorandum of December 3 with regard to the question of the export of war materials to Spain in which you requested specific information as to shells, hand grenades, etc., alleged to have been sent to Germany or Belgium or Holland or England, and then shipped to Franco Spain, I submit the following information:

Under the provisions of Section 5 of the Neutrality Act, licenses issued by the Secretary of State are required for the export of arms, ammunition, and implements of war to all countries. Inspection carried on by collectors of customs at ports of exit is such that no important quantity of arms can leave the United States without an export license having previously been presented. The Department has issued no licenses since January 8, 1937 for the export of shells, grenades, bombs,

The President,

The White House.

torpedoes, or any similar articles to Germany, Belgium, Holland, or England. It seems extremely unlikely, therefore, that any such arms have been shipped from the United States to these countries for transshipment to Franco. Furthermore, the Department has carefully investigated all alleged shipments of arms to Franco and has in each case found the allegations to be without foundation. The Department has no reason whatsoever to believe that arms of any kind exported from this country since January 8, 1937 have reached the rebel forces in Spain.

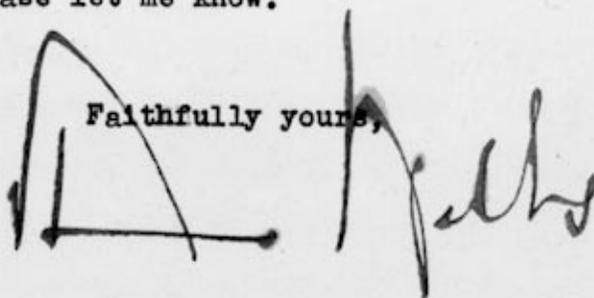
I believe that the press allegations which you have in mind were those made concerning large shipments of aerial bombs made on German vessels from Delaware River ports during the first five months of this year. Because of the fact that most of these bombs, which amounted to 69,000 in all, did go out on German vessels, the press naturally assumed that they were destined either for Germany, for Franco Spain, or for Japan. As a matter of fact, they were destined for and were delivered to the Chinese Government. Before licenses for their export to China were issued, a notification had in each case been received from the Chinese Embassy in Washington stating that the bombs had in fact been ordered by the Chinese Government. Furthermore, the Department followed with

care the voyage of the bombs after they left the United States and has been definitely informed by Mr. K. C. Li of the Wah Chang Trading Corporation, principal purchasing agent of the Chinese Government in this country, that all of these bombs arrived in Hong Kong and were safely shipped to Canton before the capture of that city by the Japanese. The participation of the Germans in the transport of these bombs to China is not surprising in view of the fact that Germany has apparently supplied to the Chinese during the present conflict more arms than any other single country.

If there is any further information in this matter that you desire, please let me know.

Believe me

Faithfully yours,

A handwritten signature in dark ink, appearing to be 'A. K. L.' or similar, written in a cursive style. The signature is positioned to the right of the typed phrase 'Faithfully yours,'.

December 6, 1938

My dear Mr. President:

In response to your memorandum of December 3 with regard to the question of the export of war materials to Spain in which you requested specific information as to shells, hand grenades, etc., alleged to have been sent to Germany or Belgium or Holland or England, and then shipped to France Spain, I submit the following information:

Under the provisions of Section 5 of the Neutrality Act, licenses issued by the Secretary of State are required for the export of arms, ammunition, and implements of war to all countries. Inspection carried on by collectors of customs at ports of exit is such that no important quantity of arms can leave the United States without an export license having previously been presented. The Department has issued no licenses since January 8, 1937 for the export of shells, grenades, bombs,

The President,

The White House.

torpedoes, or any similar articles to Germany, Belgium, Holland, or England. It seems extremely unlikely, therefore, that any such arms have been shipped from the United States to these countries for transshipment to Franco. Furthermore, the Department has carefully investigated all alleged shipments of arms to Franco and has in each case found the allegations to be without foundation. The Department has no reason whatsoever to believe that arms of any kind exported from this country since January 8, 1937 have reached the rebel forces in Spain.

I believe that the press allegations which you have in mind were those made concerning large shipments of aerial bombs made on German vessels from Delaware River ports during the first five months of this year. Because of the fact that most of these bombs, which amounted to 69,000 in all, did go out on German vessels, the press naturally assumed that they were destined either for Germany, for Franco Spain, or for Japan. As a matter of fact, they were destined for and were delivered to the Chinese Government. Before licenses for their export to China were issued, a notification had in each case been received from the Chinese Embassy in Washington stating that the bombs had in fact been ordered by the Chinese Government. Furthermore, the Department followed with

care the voyage of the bombs after they left the United States and has been definitely informed by Mr. K. E. Li of the Wah Chang Trading Corporation, principal purchasing agent of the Chinese Government in this country, that all of these bombs arrived in Hong Kong and were safely shipped to Canton before the capture of that city by the Japanese. The participation of the Germans in the transport of these bombs to China is not surprising in view of the fact that Germany has apparently supplied to the Chinese during the present conflict more arms than any other single country.

If there is any further information in this matter that you desire, please let me know.

Believe me

Faithfully yours,

Sumner Welles



COPY

TRANSLATION OF CABLE RECEIVED FROM CHUNGKING

Dated Chungking, Dec.9, 1938  
Recd. Washn.D.C. Dec.9, 1938

FROM: DR.H.H.KUNG  
TO: K.P.Chen

Result of T.K.Tseng's trip to Burma negotiating Yunnan-Burma transportation problems as follows:

1. Yunnan-Burma Highway - Burma Section completed 1st December while Chinese section estimated to complete end of year (stop) Through traffic all way expected very shortly (stop) Yunnan-Burma Railway also proceeding.
2. Steamship Company being contemplated as outlet ocean transportation from Yunnan Province (stop) Negotiations in this connection with British Government through Quo Tai Chi being conducted and promise of cooperation indicated by British side as well as Burma Government.
3. Regarding munition transportation, arrangements made to provide special facilities and precaution.
4. Rebate of duties on goods from Burma to China being worked out.
5. Railway freights promised to be reduced (stop) Other problems relative to warehousing, policing, telegraph, gasoline storage and banking facilities have all reached satisfactory arrangements.

Please inform Mr. Secretary if convenient.

KUNG

*file  
private*

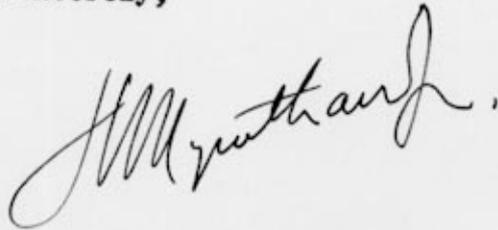
THE SECRETARY OF THE TREASURY  
WASHINGTON

December 20, 1938

My dear Mr. President:

Herewith I am sending you  
a copy of a recent cable received by  
Mr. Chen from Dr. Kung, which I think  
you will find of interest.

Sincerely,



The President,  
The White House.

Enclosure.

COPY

Translation of cable from Chungking

Dated Chungking Dec. 17, 1938.  
Rec'd Washington, D. C. Dec. 17, 1938.

From: Dr. H. H. Kung  
To: Mr. K. P. Chen

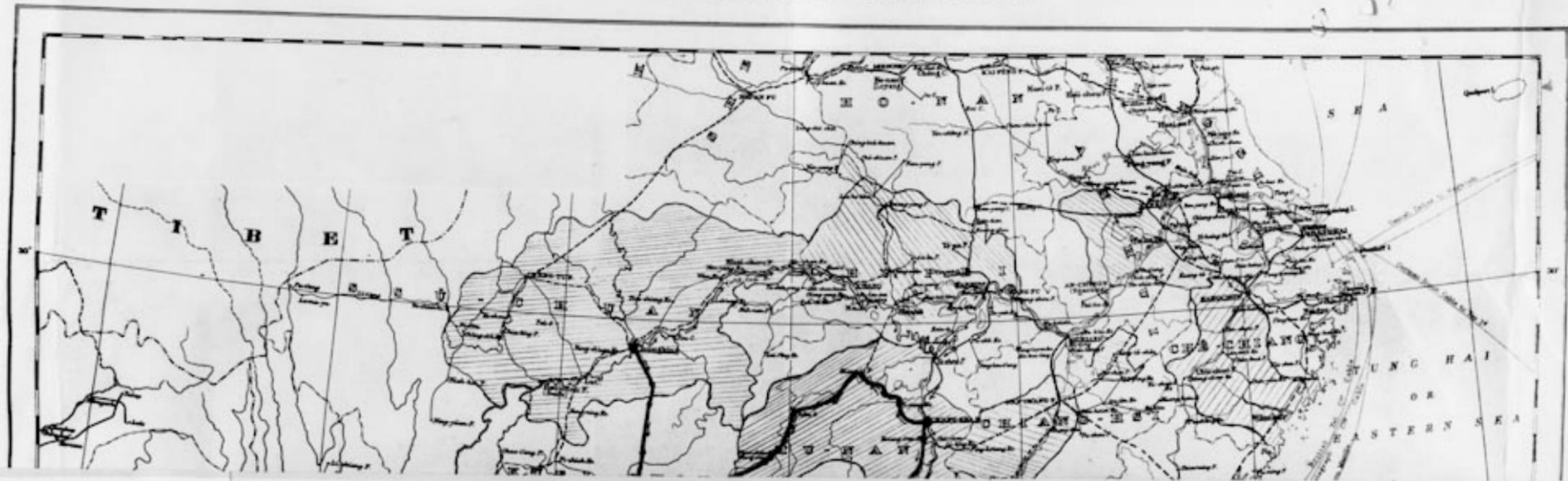
Have received report from Quo Tai-Chi that Export Credit Guarantee Department, London has submitted to Parliament proposal increasing its power to grant export credits from 50 to 75 million pounds sterling with an additional amount of 10 million Pounds sterling for purpose of national policy without necessity of referring to Parliament (stop) Quo negotiating to have this 10 million specially assigned for giving credits to China. paragraph

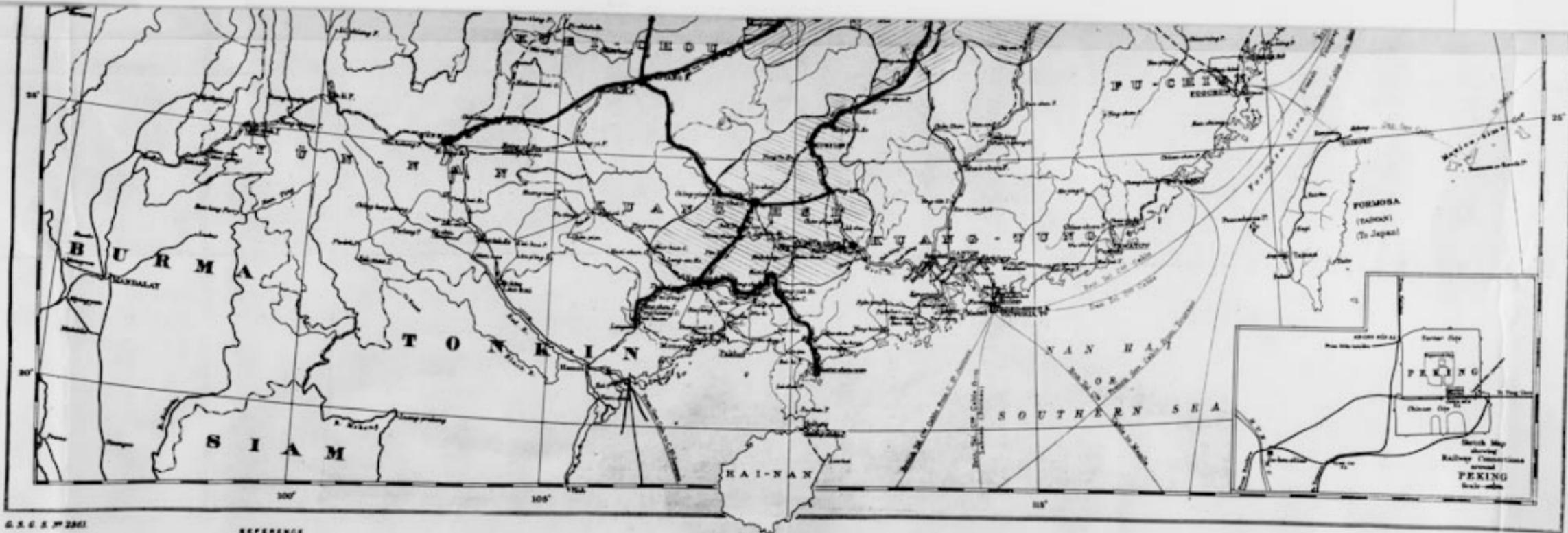
Regarding woodoil have instructed Foreign Trade Commission to ship out as much as possible (stop) Fortunately most oil producing districts are within our own control and estimated 70 to 80 thousand tons can be acquired yearly comma detailed amounts already acquired mailing by air (stop) Assure you we are doing best (stop) Tin produced in Yunnan and Kwangsi Provinces about 10,000 tons per year and can be increased if better machinery introduced (stop) No difficulty of acquiring by Government. Paragraph

Transportation on Yunnan Burma Highway feasible (stop) A shipment of arms and ammunitions has just arrived Chungking to-day by this route (stop) Bridges, etc being strengthened at various points thus enabling through traffic without hindrance shortly Paragraph.

H. H. Kung.

**MAP OF CHINA**  
SHEWING  
**RAILWAYS, TELEGRAPHS & TREATY PORTS**





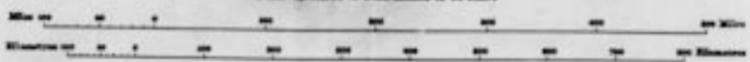
G. S. G. S. No. 2861

**REFERENCE**

- F. - Fe. G. - Gem. T. - Tug. M. - Min.
- T. - Tin. C. - Copper. P. - Petroleum.
- Open ports underlined in black. T. - T. - T.
- Railways open to traffic. ---
- under construction. ---
- proposed. ---
- Telegraph. ---

Note - All names on Telegraph lines are Telegraph Station  
Telegraph along all railways.

Scale 1:100,000 or 1 inch to 80 Miles

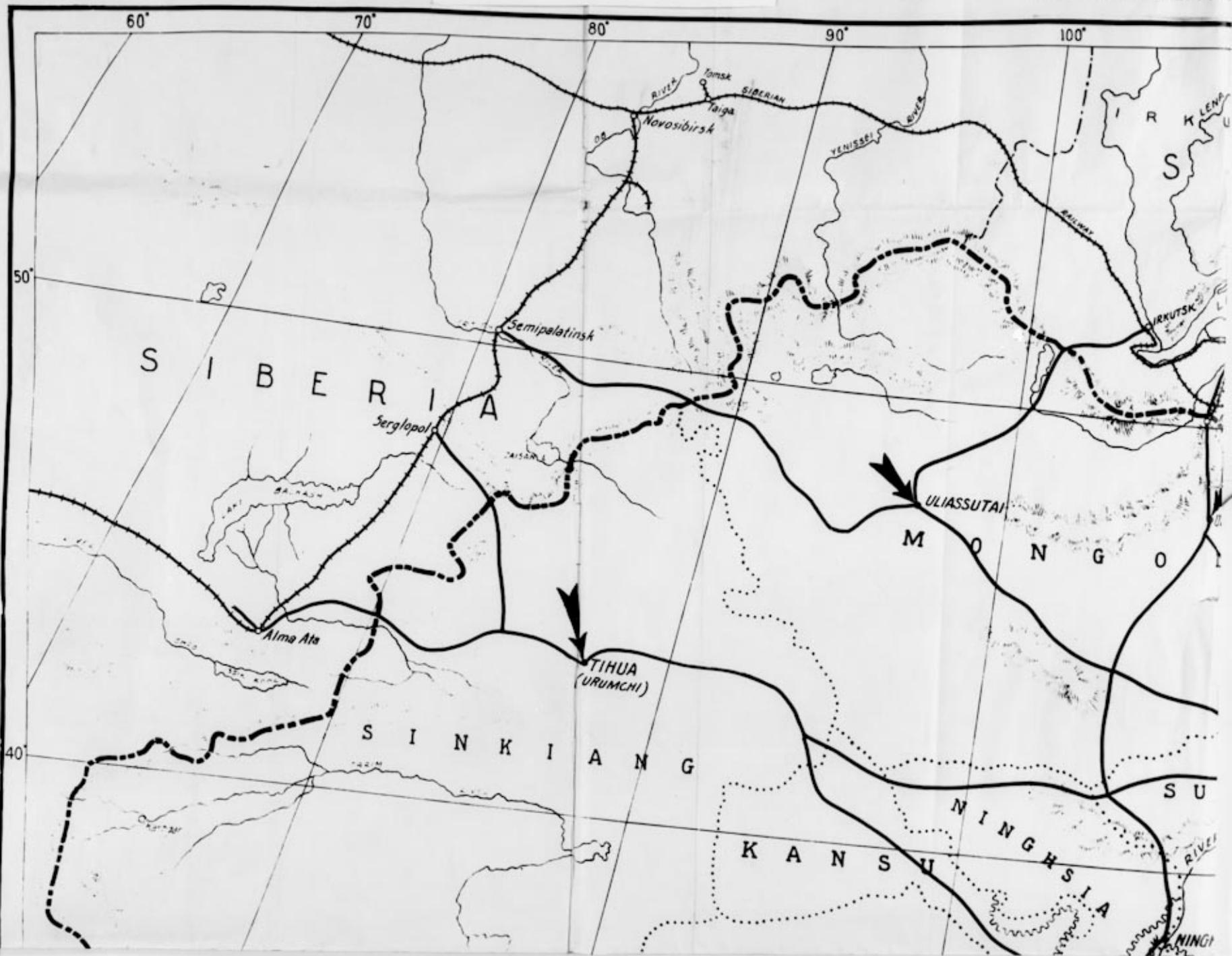


- Meter Road
- Important Junction or Terminal
- Indicating Direction of Present Routes
- Indicating Direction of Future Routes
- Showing Approximate Woodoil Producing Areas
- Port of Export

War Office, January 1912.  
Drawn and printed at the Ordnance Survey Office, Southampton.  
Corrected to January 1912.  
Revised at the War Office, 1912.

THIS OVERSIZE ITEM HAS BEEN  
MICROFILMED IN SECTIONS.

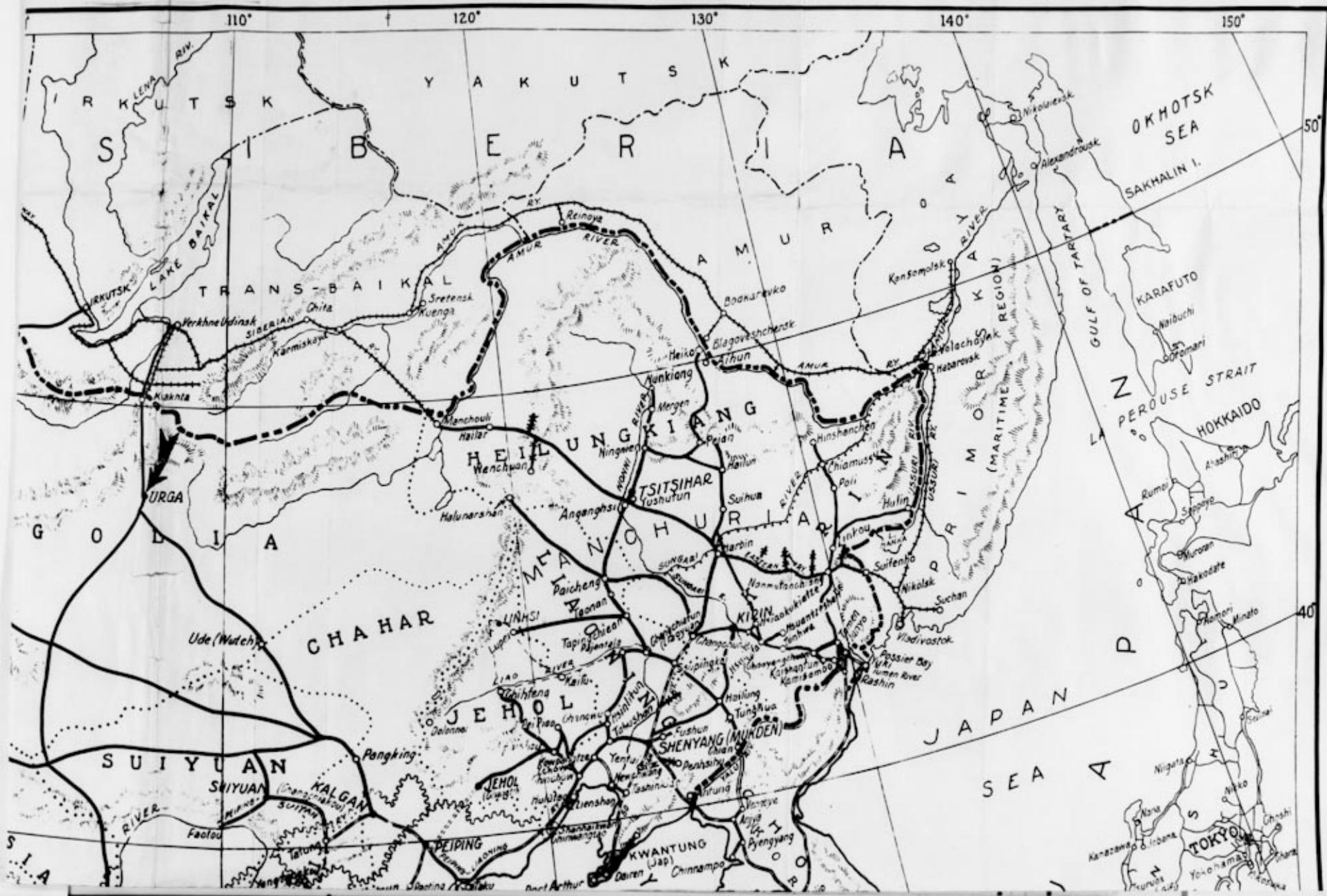
# CHINA AND ADJACENT

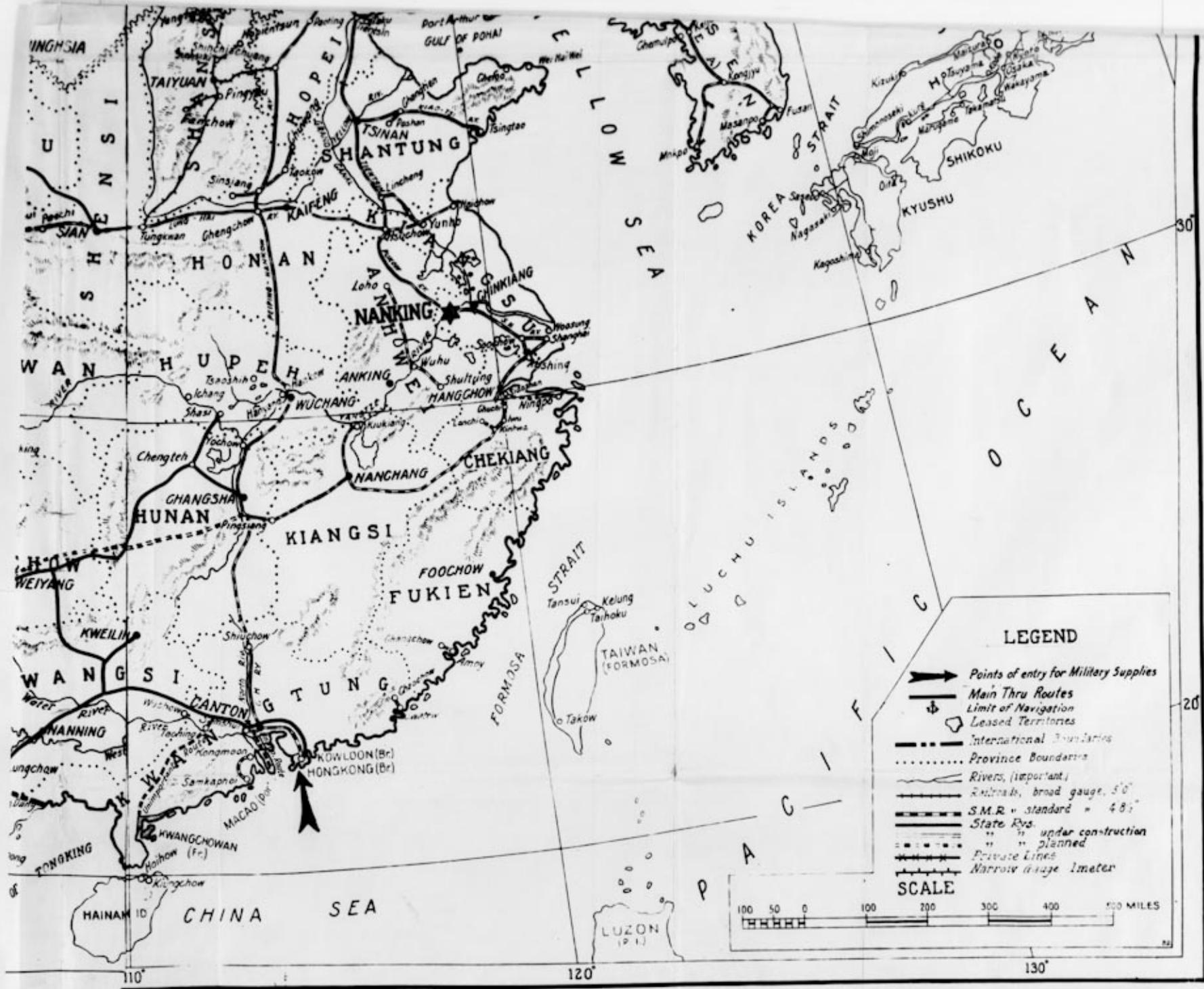




# CHINA

## ADJACENT REGIONS





THIS OVERSIDE ITEM HAS BEEN  
MICROFILMED IN SECTIONS.



